

DOCKET NO. 41791

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

DIRECT TESTIMONY

OF

STEPHANIE B. TUMMINELLO

ON BEHALF OF

ENTERGY TEXAS, INC.

SEPTEMBER 2013

ENTERGY TEXAS, INC.
DIRECT TESTIMONY OF STEPHANIE B. TUMMINELLO
2013 RATE CASE

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1 I. NAME AND QUALIFICATIONS

2 Q1. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

3 A. My name is Stephanie B. Tumminello. My business address is 639 Loyola
4 Avenue, New Orleans, Louisiana 70113.

5

6 Q2. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

7 A. I am employed by Entergy Services, Inc. ("ESI" or "Entergy Services") as
8 Manager of Affiliate Accounting and Allocations.

9

10 Q3. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?

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

12

13 Q4. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND.

14 A. I have a Bachelor of Science degree in Accounting from the University of
15 New Orleans. I am a Certified Public Accountant licensed in the State of
16 Louisiana.

17

18 Q5. PLEASE BRIEFLY DESCRIBE YOUR PROFESSIONAL EXPERIENCE.

19 A. I have been employed by ESI for approximately 17 years and have held
20 various positions in the Accounting and Finance organizations. ESI is one
21 of the service companies providing services to Entergy Corporation and its
22 subsidiaries. My work experience is described in more detail in
23 Exhibit SBT-1.

1 Q6. WHAT ARE THE PRINCIPAL AREAS OF YOUR RESPONSIBILITY AS
2 MANAGER OF AFFILIATE ACCOUNTING AND ALLOCATIONS?

3 A. I am responsible for the intrasystem affiliate billing processes of the
4 Entergy Service Companies: ESI, Entergy Operations, Inc. ("EOI"),
5 Entergy Enterprises, Inc. ("EEI"), and Entergy Nuclear Operations, Inc.
6 ("ENUC"). I oversee these companies' billing processes and procedures
7 to ensure they are in compliance with applicable requirements of the retail
8 regulators of the Entergy Operating Companies,¹ the Public Utility Holding
9 Company Act of 2005 ("PUHCA 2005"), and Federal Energy Regulatory
10 Commission ("FERC") regulations.²

11 My responsibilities also include billings, allocations, approval of
12 billing method assignments on project codes, and updating and
13 maintaining processes for allocations related to the Entergy affiliates. I
14 have overall responsibility for all affiliate billing functions.

15 My responsibilities include oversight for the review of the elements
16 of billable project code ("PC") requests and the approval of each billable
17 PC. I am also responsible for analyzing the amounts billed to affiliates to
18 ensure that the billing process is efficient and effective. In addition, I have

¹ I use the name "Entergy" or "Entergy Companies" to mean, collectively, Entergy Corporation and its direct and indirect subsidiaries. Each of these subsidiaries is a separate legal entity. The Entergy Operating Companies ("Operating Companies") are: ETI; Entergy Arkansas, Inc. ("EAI" or "Entergy Arkansas"); Entergy Gulf States Louisiana, L.L.C. ("EGSL," "EGSLA," or "Entergy Gulf States Louisiana"); Entergy Louisiana, LLC ("ELL" or "Entergy Louisiana"); Entergy Mississippi, Inc. ("EMI" or "Entergy Mississippi"); and Entergy New Orleans, Inc. ("ENOI" or "Entergy New Orleans").

² See Exhibit SBT-2 for a discussion of the regulation of Entergy Corporation's subsidiaries.

oversight for the provision of advice and training for ESI employees regarding affiliate billing issues. My accounting responsibility for ESI as a business unit ("BU"; also known as "legal entity" or "LE") includes providing information required for the preparation of the ESI FERC Form 60, Annual Report of Centralized Service Companies, as well as the FERC Form 60 reports for EOI, EEI and ENUC.

II. INTRODUCTION

Q7. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The primary purpose of my testimony is to provide an overview of ETI's affiliate case. I also discuss the regulation of the Entergy Companies' affiliate transactions. In addition, I explain how the affiliate portion of the Company's filing is organized. I address several affiliate transaction-related issues, such as the affiliate billing processes used by ESI, the Operating Companies, other regulated affiliates,³ and non-regulated affiliates to collect and bill costs to their affiliates, including ETI, for services rendered. A more detailed discussion of the purpose of my testimony is provided below.

Affiliate Case Layout: In the Affiliate Case Layout section of my testimony, I describe how affiliate charges to ETI have been organized into classes, explain how the affiliate case is organized and how it ties to

³ Entergy's regulated affiliates include the Operating Companies as well as EOI; ESI; System Fuels, Inc. ("SFI"); and System Energy Resources, Inc. ("SERI" or "System Energy").

1 the G-6 schedules and supporting workpapers,⁴ and introduce the other
2 affiliate witnesses. I describe how the information in this filing is presented
3 for the purpose of showing:

- 4 • affiliate costs charged to ETI are necessary;
- 5 • affiliate costs charged to ETI are reasonable;
- 6 • the prices charged to ETI for each class of items are no higher than
7 the prices charged to other Entergy affiliates, or to non-affiliates, for
8 the same or similar class of items; and
- 9 • the allocated amounts represent the actual cost of services to ETI.

10 I also explain why the affiliate costs charged to ETI do not include
11 prohibited expenses and that the services provided to ETI by affiliates are
12 not duplicative of services provided internally by ETI or other affiliates.

13 Each affiliate cost witness will provide testimony supporting the
14 reasonableness and necessity of the specific affiliate classes that he or
15 she sponsors. These affiliate witnesses will also support the
16 appropriateness of the billing methods that are used for the classes that
17 they address. Exhibits that show, in consistent formats, the affiliate
18 expenses for each class accompany each witness's testimony. As the
19 affiliate overview witness, my testimony collects and assembles all of
20 those individual class exhibits into one exhibit for ease of review.

21 Affiliate Transaction-Related Issues: In connection with my
22 discussion of the affiliate billing processes, I will:

⁴ Schedule G-6 is a section within the Public Utility Commission of Texas' ("Commission's") Rate Filing Package ("RFP"). It includes a summary of test year affiliate transactions.

- 1 a) provide background information regarding Entergy and its
2 regulated and non-regulated companies;
- 3 b) describe the affiliate billing process, including discussions
4 regarding project billings, loaned resource billings, co-owner
5 billings, and controls;
- 6 c) discuss the ESI service billings, including an overview of the
7 billing process, a summary of ESI charges to affiliated
8 companies, the service company recipient allocation
9 process, billing methods, and allocation rates and statistics;
- 10 d) discuss billings to ETI during the test year; and
- 11 e) describe the pro forma adjustments associated with the
12 affiliate billings to ETI included in this filing and discuss those
13 pro forma adjustments that I sponsor.
- 14 In addition to the overview of affiliates charges, I sponsor three specific
15 classes of affiliate costs: (1) Depreciation (which pertains to depreciation
16 and amortization of ESI assets used in providing services); (2) Service
17 Company Recipient Offsets (sometimes referred to as "Shared Services
18 Loader Offsets"); and (3) Other Expenses.
- 19
- 20 Q8. WHAT EXHIBITS ARE YOU INCLUDING AS PART OF YOUR
21 TESTIMONY?
- 22 A. The exhibits that I am including as part of my testimony appear in the list
23 following the Table of Contents. Because these exhibits are voluminous
24 and include a number of spreadsheets, I have provided all of my exhibits,
25 workpapers, and schedule information on the attached CD, labeled
26 Exhibit SBT-F, rather than in paper form.

1 Q9. DO YOU SPONSOR OR CO-SPONSOR ANY SCHEDULES IN THE
2 RATE FILING PACKAGE?

3 A. Yes, I co-sponsor several Rate Filing Package ("RFP") schedules filed in
4 this proceeding. I am co-sponsoring with other witnesses the following
5 schedules:

- 6 • Schedule G-6
- 7 • Schedule G-6.1
- 8 • Schedule G-6.2

9 I am also co-sponsoring the following workpapers included in
10 support of Schedule G-6 of the RFP:

11	<u>G-6 WPs</u>	<u>G-6.1 WPs</u>	<u>G-6.2 WPs</u>
12	WP/G-6 (set 1)	WP/G-6.1 (set 1)	WP/G-6.2 (set 1)
13	WP/G-6 (set 2)	WP/G-6.1 (set 2)	WP/G-6.2 (set 2)
14	WP/G-6 (set 3)	WP/G-6.1 (set 3)	WP/G-6.2 (set 3)
15	WP/G-6 (set 4)	WP/G-6.1 (set 4)	WP/G-6.2 (set 4)
16	WP/G-6 (set 5)	WP/G-6.1 (set 5)	WP/G-6.2 (set 5)
17	WP/G-6 (set 6)	WP/G-6.1 (set 6)	WP/G-6.2 (set 6)

18 These schedules and supporting workpapers were prepared by me
19 or under my direct supervision.

1 Q10. ON WHAT BASIS WERE THE SCHEDULES THAT YOU JUST
2 MENTIONED PREPARED?

3 A. They were prepared from the books and records of ESI and its affiliates
4 and are accurate summaries of the business records on which they are
5 based. Deloitte & Touche LLP ("D&T"), the independent auditor for
6 Entergy Corporation and subsidiaries, has performed a review of the
7 historical financial information included in Schedules A through W
8 (excluding L and R) of the RFP, and has reported its findings in
9 Schedule S.

10

11 Q11. WHAT TEST YEAR IS ETI USING IN THIS FILING?

12 A. The test year in this case is the twelve months ended March 31, 2013.

13

14 Q12. WHAT IS THE DOLLAR AMOUNT OF AFFILIATE CHARGES THAT ETI
15 HAS INCLUDED IN THE TEST YEAR COST OF SERVICE?

16 A. RFP Schedule G-6 shows that the Company's "Total ETI Adjusted"
17 amount for affiliate charges for the test year is \$65,031,487.

18 Additionally, there are capitalized affiliate charges included in the
19 ETI capital additions that the Company is seeking to place in rate base.
20 These capital additions are addressed by other witnesses. ESI costs are
21 directly charged or allocated to capital work orders in the same manner as
22 costs are allocated to operations and maintenance expense-based project
23 codes, the latter of which are discussed in detail in my testimony.

1 Q13. WHAT TYPE OF SYSTEM DO THE ENTERGY COMPANIES USE TO
2 CAPTURE COSTS?

3 A. The Entergy Companies use a project costing application (PowerPlant)
4 that provides a single point of entry for all PCs (that is, "project codes"). A
5 PC is an alpha numeric code that is assigned to individual projects
6 established within organizations (also referred to as "departments"). Each
7 PC is applicable to a specific assignment or activity. For example, a PC
8 would be assigned to a project to develop a specific software application,
9 a specific construction project, an employee training project, or any of a
10 myriad of activities that are necessary to run a utility.

11

12 III. BACKGROUND INFORMATION REGARDING ENTERGY
13 CORPORATION AND ITS SUBSIDIARIES

14 Q14. PLEASE BRIEFLY DESCRIBE ENTERGY CORPORATION.

15 A. Entergy Corporation owns both regulated and non-regulated companies.
16 Exhibit SBT-2 provides a detailed discussion of Entergy Corporation
17 subsidiaries. Exhibit SBT-3 is an organization chart for Entergy
18 Corporation and its subsidiaries, including both regulated and direct
19 non-regulated companies, as of March 31, 2013.

1 Q15. PLEASE BRIEFLY DESCRIBE ENTERGY CORPORATION AND ITS
2 REGULATED SUBSIDIARIES.

3 A. Entergy Corporation owns all of the outstanding common stock of six retail
4 Operating Company subsidiaries: ETI, EAI, EGSL, ELL, EMI, and ENOI.
5 As of March 31, 2013, these Operating Companies provided electric
6 service to approximately 2.8 million customers in the states of Arkansas,
7 Louisiana, Mississippi, and Texas.

8 Entergy Corporation also owns all of the outstanding common stock
9 of System Energy Resources, Inc. ("System Energy" or "SERI"), ESI, and
10 EOI, which are regulated by the Nuclear Regulatory Commission ("NRC")
11 and/or the FERC. System Energy is a nuclear generating company that
12 sells the generating capacity and energy from its 90% interest in the
13 Grand Gulf nuclear plant at wholesale to its only customers: EAI, ELL,
14 EMI, and ENOI. ESI is a service company established to provide
15 professional services primarily to Entergy's regulated utilities or Operating
16 Companies.

17 EOI is also a service company, and was established to provide
18 nuclear management and operations and maintenance services to
19 Entergy's regulated nuclear plants: Arkansas Nuclear One; River Bend;
20 Waterford 3; and Grand Gulf. Although these plants are operated by EOI,
21 they are owned by: EAI; EGSL; ELL; and System Energy, respectively.

1 Q16. PLEASE PROVIDE AN OVERVIEW OF ENTERGY'S NON-REGULATED
2 SUBSIDIARIES.

3 A. Entergy's non-regulated subsidiaries include, among others, EEI, Entergy
4 Power, LLC ("EPL"), a wholesale power producer, and ENUC, a service
5 company established to provide nuclear management and operations
6 services to Entergy's non-regulated nuclear plants. For a more detailed
7 discussion of Entergy's direct non-regulated affiliates, please refer to
8 Exhibit SBT-2.

9

10 Q17. FROM WHICH OF THE ENTERGY SUBSIDIARIES DOES ETI RECEIVE
11 THE MOST SIGNIFICANT LEVEL OF AFFILIATE CHARGES?

12 A. ETI receives the most significant level of affiliate charges from ESI. In
13 addition to affiliate charges from ESI, ETI receives charges from the other
14 Operating Companies and EOI.

15

16 Q18. WHY IS ESI THE SOURCE OF MOST OF ETI'S AFFILIATE CHARGES?

17 A. Centralization of activities through the creation of service companies
18 results in economies of scale and provides a pool of centralized expertise
19 for Entergy's regulated utility affiliates. As noted previously, ESI, EOI,
20 EEI, and ENUC are the four primary service companies. EOI provides
21 services to Entergy's regulated nuclear plants, and EEI and ENUC provide
22 services to non-regulated affiliates, as more fully described in
23 Exhibit SBT-2. I provide an overview of the services provided by ESI.

1 Q19. PLEASE DESCRIBE THE PURPOSE AND FUNCTION OF ESI.

2 A. ESI is authorized to conduct business as a service company by a
3 temporary order issued by the Securities and Exchange Commission
4 ("SEC") in March 1963, which was made permanent in March 1965. ESI
5 was formed as, and continues to be, primarily a service company for the
6 Operating Companies. Costs incurred by ESI to provide services to all
7 regulated companies, including ETI, are billed at cost and do not produce
8 a profit. ESI also performs services for some of Entergy's non-regulated
9 companies through ESI's Service Agreement with EEI. These services
10 are billed at cost plus 5%. Exhibit SBT-2 provides a more detailed
11 discussion of ESI's purpose and function.

12

13 Q20. WHAT TYPES OF SERVICES DOES ESI PROVIDE?

14 A. The services ESI provides to its affiliates include general executive,
15 management, advisory, administrative, human resources, accounting,
16 finance, legal, regulatory, and engineering services. These services are
17 provided in accordance with Service Agreements entered into by ESI and
18 the respective affiliates to which it provides services. The Service
19 Agreements between ESI and its affiliates are included as
20 Exhibits SBT-4A through SBT-4O. These Service Agreements outline the
21 general types of services that ESI provides.

22 ESI provides services according to functional groupings that reflect
23 the way ESI is organized. See Exhibits SBT-5 and SBT-6 for details,

1 which I discuss in more detail later in my testimony. These groupings are
2 reflected in the presentation of ETI's affiliate expenses in this filing and
3 represent a compilation of the services that are provided to ETI by ESI.

4 The types of services outlined in the Service Agreements between
5 ESI and the affiliates that it serves have been grouped in classes that are
6 discussed later in my testimony for the purpose of presentation in this
7 filing. Exhibit SBT-7 shows the affiliates that receive services from ESI.

8

9 Q21. IS THE SERVICE AGREEMENT BETWEEN ESI AND ETI DIFFERENT
10 IN SUBSTANCE FROM THE SERVICE AGREEMENTS ESI HAS WITH
11 THE OTHER AFFILIATED COMPANIES?

12 A. No. The Service Agreements between ESI and each of the other Entergy
13 affiliates discussed previously are the same in substance. However, the
14 types and amounts of services vary among the companies.

15

16 Q22. ARE ALL NON-REGULATED ENTERGY COMPANIES PARTIES TO
17 SERVICE AGREEMENTS WITH ESI?

18 A. No. ESI does not directly provide services to all of the non-regulated
19 affiliates. ESI, however, does provide services directly to EPL and EEI,
20 and has service agreements with these two non-regulated companies.
21 When ESI provides services to EEI, the provision of these services is
22 often the result of a request for services made by a non-regulated
23 company to EEI. When that situation arises, the billing for that service is

1 made by ESI to EEI and, in turn, EEI bills the non-regulated company for
2 the service. As shown on Exhibit SBT-8, total ESI billings to EPL and EEI
3 were .02% and 14.62%, respectively, of ESI's total billings to all affiliates
4 during the test year.⁵ ESI billings to all affiliates, including EPL and EEI,
5 for 2010 to 2012 are shown on Exhibit SBT-9.

6
7 Q23. WHAT TYPES OF SERVICES ARE PROVIDED BY ESI TO THE
8 NON-REGULATED AFFILIATES THROUGH EEI?

9 A. Although ESI was formed to serve primarily Entergy's regulated utility
10 operations, there are three general categories of services that ESI
11 provides to the non-regulated companies through EEI. The first type of
12 services provided by ESI through EEI are those provided solely to EEI or a
13 non-regulated affiliate. For instance, ESI provides services with regard to
14 specific non-routine projects, tax issues, legal issues, or accounting issues
15 directly associated with EEI or a non-regulated affiliate. These costs are
16 billed 100% to EEI.

17 The second type of services provided by ESI through EEI is the
18 type of services that concurrently are used by both the regulated and
19 non-regulated Entergy affiliates. For example, non-regulated companies
20 participate in certain payroll, human resources, benefits, accounts
21 payable, communications, and support services primarily provided to the
22 regulated companies. However, the level of such services may differ

⁵ Exhibit SBT-8 includes a schedule of ESI billings to affiliates during the test year.

1 between the regulated and non-regulated affiliates. For example, ESI
2 processes all of the payroll transactions for the regulated affiliates,
3 whereas ESI processes some, but not all, of the non-regulated companies'
4 payroll transactions. In this instance, the billing method for allocating the
5 costs assigned to the associated PC is calculated based on the number of
6 paychecks issued for those companies for which the services are
7 provided.

8 The third type of ESI service provided and billed to EEI is for EEI's
9 allocable share of ESI's overhead and departmental costs. ESI, like any
10 corporation, incurs costs that are necessary to maintain and support its
11 existence. Therefore, ESI's expenses for its own overhead costs, such as
12 accounting, tax, legal, and other support, must be distributed reasonably
13 to all of the legal entities that ESI serves, including EEI.

14 Further, each department (also referred to as "organization") within
15 ESI must incur costs that are not related to any specific service, but which
16 are costs that are attributable to a department. EEI is billed for a portion
17 of these costs. These include items such as administrative labor costs
18 associated with office and general service employees (including not only
19 salaries and wages but also other related employment costs), rent and
20 utilities, depreciation, materials and supplies, telephone use, and postage.

1 Q24. DOES ESI PROVIDE ANY SERVICES TO THE REGULATED OR
2 NON-REGULATED COMPANIES FREE OF CHARGE OR AT A
3 DISCOUNT?

4 A. No. ESI costs incurred to provide services to its regulated affiliates are
5 billed at cost and to non-regulated affiliates at cost plus 5% (in accordance
6 with a June 1999 SEC order).

7

8 IV. AFFILIATE TRANSACTION REGULATION

9 Q25. ARE YOU FAMILIAR WITH THE STANDARDS USED BY THE PUBLIC
10 UTILITY COMMISSION OF TEXAS ("COMMISSION") TO DETERMINE
11 THE REASONABLENESS OF EXPENSES ASSOCIATED WITH
12 AFFILIATE TRANSACTIONS AND THE ELIGIBILITY OF SUCH
13 EXPENSES FOR INCLUSION IN COST OF SERVICE?

14 A. Yes. I am not an attorney, but part of my job responsibility is to be familiar
15 with the legal standards (rules, statutes, and court cases) governing
16 affiliate transactions and cost recovery in Commission proceedings.
17 Section 36.058 of the Public Utility Regulatory Act ("PURA") and *Railroad*
18 *Commission of Texas v. Rio Grande Valley Gas Company*⁶ set forth the
19 affiliate standard applicable to Commission rate proceedings. This
20 standard involves a four-part inquiry that addresses: (1) the necessity of
21 the affiliate services on a class of items basis; (2) the reasonableness of
22 the costs related to the class; (3) the compliance with the "no higher than"

⁶ 683 S.W.2d 783 (Tex. App.-Austin 1984 no writ).

1 standard, which requires that the price for the same or similar services
2 provided be no higher for one affiliate or non-affiliated person than for
3 another affiliate or non-affiliated person;⁷ and (4) whether the price
4 charged reasonably approximates (or represents) the actual cost of the
5 services. I also explain that the price charged excludes costs that may not
6 be allowed for ratemaking purposes, and that charges are not duplicated.

7

8 Q26. ARE YOU FAMILIAR WITH THE REQUIREMENTS OF SUB-SECTION (f)
9 OF PURA SECTION 36.058?

10 A. Yes. It is my understanding that if the Commission determines that the
11 requested amount of an affiliate expense during the test period is
12 unreasonable, then, instead of disallowing the entire affiliate expense, the
13 Commission must determine the reasonable level of the affiliate expense
14 and include that reasonable level in the utility's cost of service.

15

16 Q27. DOES THE COMMISSION'S RFP APPLICABLE TO ETI PROVIDE ANY
17 GUIDANCE REGARDING HOW TO DEMONSTRATE THE
18 REASONABLENESS AND NECESSITY OF AFFILIATE CHARGES?

19 A. No. ETI is required to use, and is using for this case, the Electric Utility
20 Rate Filing Package for Generating Utilities (Sept. 9, 1992). This is the
21 RFP for fully-bundled electric utilities such as ETI. Section V of the

⁷ ESI does not provide services to non-affiliated entities.

Commission's RFP for unbundled transmission and distribution utilities,⁸ however, provides a set of "guiding principles" with illustrative types of evidence that may be used to support the affiliate charges, including historical cost trends, process improvements, benchmarking, outsourcing, third-party reviews, operating statistics, and other metrics. These guiding principles are not, strictly speaking, applicable to this case because ETI is not an "unbundled" transmission and distribution utility. Nonetheless, each Company affiliate cost witness has relied upon these guiding principles to marshal the evidence to support his or her affiliate costs.

Q28. HOW DO THE AFFILIATE COSTS INCLUDED IN THE COMPANY'S REVENUE REQUIREMENT COMPLY WITH APPLICABLE STANDARDS IN TEXAS STATUTES AND RULES?

A. Each affiliate cost witness sponsors testimony supporting his or her specific affiliate classes. Their testimony, in conjunction with my testimony, demonstrates that the affiliate costs meet the standards I describe above for recovery of affiliate charges. Also, Company witnesses Michelle P. Bourg, Gerard L. Fontenot, Mark F. McCulla, Phillip N. Sharp, and Shawn B. Corkran present additional support by demonstrating the reasonableness of various components of ETI's costs from a benchmarking perspective. Other witnesses support the

⁸ Investor Owned Utility Transmission & Distribution Cost of Service Rate Filing Package (April 2, 2003).

1 reasonableness of categories of costs that are included in ETI's affiliate
2 test year costs, such as compensation and benefits (by Company witness
3 Jennifer A. Raeder) and the supplies and acquisition processes (by
4 Company witness Reginald T. Jackson).

5
6 Q29. WHAT OTHER REGULATORY REQUIREMENTS REGARDING
7 AFFILIATE TRANSACTIONS ARE RELEVANT TO A REVIEW OF
8 AFFILIATE TRANSACTIONS?

9 A. I am advised that prior to February 8, 2006, Entergy Corporation was a
10 holding company registered under the Public Utility Holding Company Act
11 of 1935 ("PUHCA 1935") and, therefore, was subject to the oversight of
12 the SEC. ESI, which is a service company established in accordance with
13 PUHCA 1935, was subject to regulation by the SEC. Effective February 8,
14 2006, however, pursuant to the Energy Policy Act of 2005 ("EPAAct 2005"),
15 PUHCA 1935 was repealed and the Public Utility Holding Company Act of
16 2005 ("PUHCA 2005") was enacted. Section 1275(b) of EPAAct 2005
17 provides that:

18 In the case of non-power goods or administrative or management
19 services provided by an associate company organized specifically
20 for the purpose of providing such goods or services to any public
21 utility in the same holding company system, at the election of the
22 system or a State commission having jurisdiction over the public
23 utility, the [FERC], after the effective date of this subtitle, shall
24 review and authorize the allocation of the costs for such goods or
25 services to the extent relevant to that associate company.

1 Q30. WHAT REGULATIONS HAS FERC ISSUED RELATED TO SERVICE
2 COMPANIES TO REPLACE THE SEC REGULATIONS?

3 A. On December 8, 2005, the FERC issued Order No. 667, which added
4 Part 366 to its regulations to implement the repeal of PUHCA 1935 and
5 the enactment of PUHCA 2005. Under the definitions provided in the
6 PUHCA 2005 regulations, ESI is a "service company" in that it was
7 organized specifically for the purpose of providing non-power goods or
8 services to a "public utility" within the same holding company system.
9 Each of the Operating Companies is a "public utility" as defined in the
10 PUHCA 2005 regulations. The PUHCA 2005 regulations also include
11 Section 366.5, which essentially mirrors the language of Section 1275(b)
12 of the EAct 2005, and adds that "[s]uch election to have the [FERC]
13 review and authorize cost allocations shall remain in effect until further
14 [FERC] order."

15 On October 19, 2006, the FERC issued Order No. 684, "Financial
16 Accounting, Reporting and Records Retention Requirements under the
17 Public Utility Holding Company Act of 2005." This order establishes
18 regulations for service companies related to the Uniform System of
19 Accounts ("USofA"), the filing of the FERC Form 60, and records retention
20 requirements.

21 On February 21, 2008, the FERC issued Order No. 707,
22 "Cross-Subsidization Restrictions on Affiliate Transactions." This order
23 codified, among other things, the FERC requirements for the pricing of

1 non-power goods and services provided by a service company and
2 between other affiliates. On July 17, 2008, the FERC issued Order
3 No. 707-A, "Order on Rehearing." This order granted rehearing and
4 clarification, in part, of Order No. 707.

5

6 Q31. WHAT ARE THE FERC REQUIREMENTS FOR THE PRICING OF
7 NON-POWER GOODS AND SERVICES PROVIDED BY A SERVICE
8 COMPANY?

9 A. FERC Order Nos. 667 and 667-A allowed traditional, centralized service
10 companies that previously used the SEC's "at cost" standard for the
11 pricing of sales of non-fuel, non-power goods and services to
12 FERC-jurisdictional utilities to continue to use that "at cost" standard (the
13 "at cost" standard means, as I understand it, that cost of the services does
14 not include a component of profit.) Further, in its Order Nos. 667 and
15 667-A, the FERC indicated that "at cost" pricing of non-power goods and
16 services provided by traditional, centralized service companies such as
17 ESI to associate public utilities is presumed to be reasonable.
18 Specifically, in Order No. 667 the FERC stated:

19 Fundamentally, we agree...that centralized provision of accounting,
20 human resources, legal, tax and other such services benefits
21 ratepayers through increased efficiency and economies of scale.
22 Further we recognize that it is frequently difficult to define the
23 market value of the specialized services provided by centralized
24 service companies. Accordingly, the Commission will apply a
25 rebuttable presumption that costs incurred under "at cost" pricing of
26 such services are reasonable.

1 FERC Order Nos. 707 and 707-A prohibit, among other things, a
2 franchised public utility with “captive customers” from receiving non-power
3 goods and services from a centralized service company at a price above
4 cost. This “at cost” pricing requirement for service company billings is
5 consistent with previous FERC and SEC requirements. ESI is in
6 compliance with the pricing requirements of FERC Order Nos. 707 and
7 707-A. ESI’s compliance with the FERC’s “at cost” requirement helps to
8 ensure that ESI affiliate costs charged to ETI are reasonable.

9
10 Q32. DID THE ENTERGY COMPANIES REQUEST A REVIEW OF COST
11 ALLOCATIONS BY FERC FOLLOWING THE ENACTMENT OF PUHCA
12 2005?

13 A. Yes. On October 13, 2006, ESI, on behalf of the Operating Companies,
14 submitted a filing to the FERC requesting that FERC: a) review and
15 accept the cost allocation methods included in the service agreements
16 used for the sale of non-power goods and services by ESI and EOI to the
17 Operating Companies; and b) accept the existing service agreements
18 effective as of February 8, 2006. The filing was made pursuant to
19 Section 1275(b) of the EPAct 2005, Section 205 of the Federal Power Act,
20 and Section 366.5(a) and Part 35 of the FERC’s regulations (18 C.F.R.).
21 In electing to make this filing, ESI sought a determination by the FERC
22 with respect to the appropriate allocation and pricing of services provided
23 by ESI and EOI to the Operating Companies.

1 Q33. DID THE FERC ISSUE AN ORDER IN CONNECTION WITH THE
2 ENTERGY COMPANIES' FILING IN THIS MATTER?

3 A. Yes. On December 12, 2006, the FERC issued an order accepting the
4 service agreements and proposed methods of cost allocation effective
5 February 8, 2006, as requested in the Entergy Companies' filing. In that
6 order, the FERC agreed that Section 1275(b) of EPAct 2005 was intended
7 to vest authority in a federal regulator to help avoid disparate regulatory
8 treatments with respect to service company cost allocations. The FERC
9 order accepting ESI's and EOI's service company cost allocation request
10 is included as Exhibit SBT-10.

11

12 Q34. DOES PUHCA 2005 CONTAIN ANY PROCEDURES FOR CHANGING
13 COST ALLOCATIONS REVIEWED AND ACCEPTED BY THE FERC?

14 A. No. PUHCA 2005 does not separately specify procedures for changing
15 cost allocations reviewed and accepted by the FERC. However, in its
16 December 12, 2006 order discussed above, the FERC explained that any
17 changes to a FERC-filed rate, including the cost allocation provisions,
18 must be made in accordance with Section 205 and 206 of the Federal
19 Power Act.

20

21 Q35. HAVE THERE BEEN ANY MODIFICATIONS TO THE ENTERGY
22 COMPANIES' COST ALLOCATION FORMULAS SINCE THE

1 COMPANY'S LAST BASE RATE CASE FILING THAT REQUIRED FERC
2 REVIEW?

3 A. No.

4

5 Q36. DOES THE FERC EXERCISE ANY ADDITIONAL OVERSIGHT
6 AUTHORITY OVER ENTERGY'S SERVICE COMPANIES?

7 A. Yes. The FERC, in its oversight role, is authorized to conduct periodic
8 audits of service company transactions. The FERC also requires that
9 centralized service companies file an annual report on FERC Form 60.

10

11 Q37. HAS THE FERC CONDUCTED ANY AUDITS OF ENTERGY'S SERVICE
12 COMPANIES?

13 A. Yes. As noted above, the FERC, under the authority of the "PUHCA
14 2005," is authorized to periodically conduct audits of service companies.
15 These service company audits include an examination of each service
16 companies' compliance with cross-subsidization restrictions on affiliate
17 transactions at 18 C.F.R. Part 35, accounting, recordkeeping, and
18 reporting requirements at 18 C.F.R. Part 366, compliance with the USofA
19 for centralized service companies at 18 C.F.R. Part 367, and preservation
20 of records requirements for service companies at 18 C.F.R. Part 368.
21 During the most recent FERC audit of Entergy's four service companies,
22 including ESI, covering the period January 2006 through December 2008,
23 the FERC tested for compliance with the aforementioned regulations by

1 conducting tests of the service companies' cost allocations and the
2 charges billed by the service companies. The FERC reviewed and tested
3 the supporting details for the service companies' cost allocation
4 methodologies, tested the centralized service companies' costs and
5 accounting, and reviewed selected service companies' billings and the
6 corresponding associated franchised public utilities' accounting for the
7 billings. The FERC letter order dated December 9, 2009 in connection
8 with this audit found there were no significant deficiencies related to the
9 allocation methodologies, accounting, or pricing of service company
10 transactions.⁹

11
12 V. AFFILIATE CASE LAYOUT

13 Q38. WHAT IS THE PURPOSE OF THIS SECTION OF YOUR TESTIMONY?

14 A. This section of my testimony provides an overview of how the Company's
15 affiliate transaction case is organized to meet the affiliate standard in
16 Texas, including: an explanation of why the case is organized in this
17 manner; an explanation of how the testimony and exhibits of each of the
18 affiliate witnesses link to G-6 Schedules; and an explanation of how the
19 testimony, exhibits and G-6 Schedules relate to the PCs that I describe in
20 more detail later in my testimony.

⁹ Workpaper WP/SBT-1 includes the FERC letter order dated December 9, 2009.

1 Q39. HOW DO THE AFFILIATE COSTS PRESENTED IN THIS CASE RELATE
2 TO THE RATES THE COMPANY SEEKS TO ESTABLISH IN THIS
3 CASE?

4 A. The Company's cost of providing services includes both costs incurred
5 directly by the Company and affiliate charges. As discussed earlier, the
6 Commission determines the eligibility of affiliate costs for recovery in rates
7 based on the standards required by law. The Company has presented its
8 affiliate information in a manner that will permit the Commission to review
9 its affiliate costs for compliance with the affiliate standard. The affiliate
10 costs are a component of the rates the Company is requesting to
11 implement in this docket.

12

13 Q40. PLEASE DESCRIBE THE COMPANY'S ORGANIZATION OF ITS
14 AFFILIATE CASE.

15 A. The Company's affiliate case is organized to correspond to the way in
16 which ETI and ESI are organized and managed. ESI's business is divided
17 into two basic functional groupings or "families." These families are
18 1) Corporate Support and 2) Operations.

19

20 Q41. ARE THE TWO FAMILIES FURTHER BROKEN DOWN INTO SMALLER
21 GROUPINGS?

22 A. Yes. Within each of these families, we have more discrete functions or
23 service categories. Thus, for example, as shown in Exhibit SBT-6, entitled

1 “Families and Functions,” the “Operations” family (shorthand for Utility
2 Operations Group) is comprised of traditional utility functions such as
3 Generation, Transmission, Distribution, and Customer Service.
4

5 Q42. ARE THESE “FUNCTIONS” THE “CLASSES” THAT THE COMPANY
6 HAS IDENTIFIED FOR PURPOSES OF MEETING THE AFFILIATE
7 STANDARD IN PURA, WHICH REQUIRES COSTS TO BE ORGANIZED
8 ON AN ITEM OR CLASS OF ITEMS BASIS?

9 A. Not necessarily. In some cases, there is only one class within a function.
10 But the functions are not always the classes the Company proposes for
11 purposes of proving its compliance with the affiliate standard set forth in
12 PURA. The Company determined that some of these functions may be
13 too broad for purposes of making an effective presentation of its affiliate
14 costs. Further, the Company wanted to ensure that the witnesses who
15 explain the affiliate services provided to ETI have the requisite degree of
16 accountability and technical knowledge to provide sufficient detailed
17 information concerning each class of services (that is “class of items”) that
18 they sponsor.

1 Q43. HOW DID THE COMPANY SEPARATE THESE FUNCTIONS INTO
2 CLASSES OF SERVICES FOR PURPOSES OF PROVING
3 COMPLIANCE WITH THE AFFILIATE STANDARD?

4 A. The Company and ESI focused on the way they organize and operate
5 their businesses in order to identify classes of services for purposes of
6 meeting the affiliate standard. Thus, the Company looked at the various
7 departments that compose each function and grouped these departments
8 into classes based on factors such as the extent to which the departments
9 provided interrelated services or had some other logical connection to
10 each other. For example, departments such as accounts payable, cash
11 operations, payroll, fixed asset operations, revenue operations, external
12 reporting, and Affiliate Accounting and Allocations were included in the
13 Financial Services Class of services. A similar process was followed for
14 identifying classes within each of the functions shown on Exhibit SBT-5.
15 Additionally, some cost items were grouped based on resource code
16 instead of department code¹⁰ (examples of these include depreciation and
17 income taxes) and based on physical location for Nelson 6 co-owner
18 costs.

¹⁰ A resource code indicates the type of costs used or consumed in the conduct of work activities, while a department code indicates which organization provides the services (and budgets, captures and reports on the related costs for those services).

1 Q44. HOW MANY CLASSES OF AFFILIATE CHARGES ARE THERE IN THE
2 COMPANY'S CASE, AND WHO SPONSORS THEM?

3 A. Affiliate services provided to ETI are grouped into 23 classes of items in
4 the Company's filing. Exhibit SBT-5 shows the functions composing each
5 family as well as the classes that make up each function. Thus, for
6 example, Exhibit SBT-5 shows that there are six functions within the
7 Corporate Support family. Below each function are the classes that
8 compose that function and the name of the witness who sponsors that
9 affiliate class of services. This exhibit also shows the Total ETI Adjusted
10 amount for each class of affiliate services. Thus, for example, the
11 Financial Services class, which is sponsored by Company witness
12 Donna S. Doucet, is in the Finance function. This exhibit does not include
13 the level of test year affiliate charges for capital additions.

14

15 Q45. WHAT INFORMATION DOES EACH WITNESS PROVIDE WITH
16 RESPECT TO THE CLASSES OF SERVICES THAT HE OR SHE
17 SPONSORS?

18 A. Although the testimony of each of the affiliate witnesses varies depending
19 on subject matter, there are certain common elements that I will explain.
20 Each witness who sponsors a class of services describes why those
21 services are necessary; explains why the costs of those services are
22 reasonable; discusses the billing methods used to ensure that prices paid
23 by ETI are no higher than the prices paid by other Entergy affiliates for the

1 same or similar services; and also explains that the costs paid by ETI
2 represent the actual costs of the services provided. In addition, each
3 affiliate witness has included as exhibits to his or her testimony a
4 schematic that highlights by family and function the class or classes that
5 he or she is supporting, *i.e.*, an exhibit identical to my Exhibits SBT-5 and
6 SBT-6.

7

8 Q46. ARE THERE ANY OTHER EXHIBITS THAT ARE COMMON TO ALL
9 AFFILIATE WITNESSES?

10 A. Yes. Each affiliate witness sponsors key affiliate cost-related exhibits that
11 are designated by letters (*i.e.*, A, B, C, D) instead of numbers. For ease of
12 reference, I will refer to them as Exhibits A, B, C, and D. For example, the
13 affiliate cost exhibits supporting Company witness Doucet's testimony are
14 labeled Exhibits DSD-A, DSD-B, DSD-C, and DSD-D. These exhibits
15 present the cost of affiliate services in various levels of detail for each
16 class of services included in Schedule G-6 of the Company's Application.
17 For each class of services sponsored by the witness, Exhibits A, B and C
18 include all affiliate billings that originate at ESI, billings to ETI from the
19 other Operating Companies (EAI, EGSL, ELL, EMI, or ENOI), and billings
20 to ETI from other affiliates. In addition, Exhibit D contains information
21 about test year pro forma adjustments, if any, affecting each class of
22 services sponsored by the witness. For the convenience of the parties, I

1 have included my Exhibits SBT-A, SBT-B, SBT-C, and SBT-D, which are
2 compilations of all witnesses' Exhibits A, B, C, and D, respectively.

3

4 Q47. PLEASE DESCRIBE THE INFORMATION THAT IS CONTAINED IN
5 EXHIBIT A.

6 A. Exhibit A is entitled, "Affiliate Billings – by Witness, Class and
7 Department." Exhibit A shows for each class of services sponsored by
8 that witness the amounts by department for the test year. The information
9 presented in Exhibit A permits the reviewer to examine which departments
10 had charges within each class of services and the amounts of test year
11 costs for each department within the class.

12

13 Q48. PLEASE SUMMARIZE HOW TO CALCULATE THE TEST YEAR
14 AMOUNT FOR EACH CLASS OF SERVICES DESCRIBED IN EXHIBIT A
15 OF EACH WITNESS'S TESTIMONY.

16 A. To calculate the test year amount for a class of service described in
17 Exhibit A, the reviewer need only add Column "E" (ETI Per Books) +
18 Column "F" (Exclusions) + Column "G" (Pro Forma Amount) to arrive at
19 the Total ETI Adjusted amount shown in Column "H," which is the amount,
20 by billing entity, included in the G-6 workpapers for this class of services.

1 Q49. HAVE YOU PREPARED AN EXHIBIT THAT SUMMARIZES THE
2 CONTENTS OF COLUMN "F" (EXCLUSIONS) IN EXHIBITS A, B, C,
3 AND D?

4 A. Yes. Exhibit SBT-11, entitled "Affiliate Billing Exclusions by Class," shows
5 by function and by class all exclusions from ETI's test year affiliate
6 expenses for the Corporate Support family and the Operations family. As
7 shown in this exhibit, test year exclusions totaled approximately
8 \$19.5 million. Exclusions include amounts charged to FERC USofA
9 capital accounts (FERC accounts 107 to 118); other balance sheet
10 accounts (FERC accounts 152 to 242); interest charges (FERC accounts
11 430 to 432); and below-the-line accounts (FERC accounts 408202 to
12 426500). With the exception of amounts charged to certain capital
13 accounts, these exclusions are made in order to arrive at a total cost
14 amount that does not include costs that may not be recovered in rates,
15 such as expenses prohibited from being included in rates by Texas law.
16 Amounts included in the exclusions category do not represent pro forma
17 adjustments.

18

19 Q50. HAVE YOU PREPARED AN EXHIBIT TO ASSIST THE REVIEWER IN
20 TRACKING THE DATA PRESENTED IN EXHIBIT A?

21 A. Yes. I have prepared Exhibit SBT-A.1 for that purpose. This "roadmap"
22 exhibit illustrates in a brief and easily understandable way, what specific
23 information is provided in each column of Exhibit A.

1 Q51. PLEASE DESCRIBE EXHIBIT B THAT IS ATTACHED TO EACH
2 WITNESS'S TESTIMONY.

3 A. Exhibit B is entitled, "Affiliate Billings – by Witness, Class and Project."
4 Exhibit B shows for each class of services sponsored by that witness the
5 amounts by project code (also referred to as a "PC") for the test year. The
6 information presented in Exhibit B permits the reviewer to examine the
7 following: which PCs were charged within each class of services; which
8 billing method was used; and the amounts included in test year costs for
9 each PC within the class. From here, the reviewer can, in turn, refer to the
10 Project Summaries included as Exhibit SBT-E for additional detail
11 concerning each PC included in each class within the Company's filing. I
12 discuss the information presented in the Project Summaries in greater
13 detail later in my testimony.

14

15 Q52. PLEASE DESCRIBE EXHIBIT C.

16 A. Exhibit C, which is entitled "Affiliate Billings – by Witness, Class,
17 Department and Project," is a combination of Exhibits A and B. This
18 additional sort of the data, by department and project, allows the reviewer
19 to determine which department charged a particular PC for the particular
20 services. For example, Company witness Doucet's Exhibit DSD-C allows
21 the reviewer to trace a total of \$27,649 Total ETI Adjusted test year
22 amount, including pro forma adjustments, to the Financial Services Class
23 billings to project code "F3PPF72700." Exhibit DSD-C further shows that

1 these services were performed by billing departments FA259
2 (Management Reporting) and FN2F1 (VP Financial Processes).¹¹

3

4 Q53. PLEASE DESCRIBE EXHIBIT D.

5 Exhibit D, entitled "Affiliate Billings – Pro Forma Summary – by Witness,
6 Class and Pro Forma," contains information about test year pro forma
7 adjustments affecting the class or classes that a particular Company
8 witness sponsors. The witnesses' Exhibit D shows the billing entity of the
9 transaction, contains the FERC account for each adjustment, assigns the
10 adjustment an identifying number, contains a brief description of the
11 nature of the pro forma adjustment, shows which witness supports the pro
12 forma adjustment, and presents the amount of the pro forma that is
13 included in the "Total" column of Schedule G-6.2.

14

15 Q54. HAVE YOU PREPARED ANY DOCUMENTS REGARDING THE PRO
16 FORMA ADJUSTMENTS INCLUDED IN EXHIBIT SBT-D?

17 A. Yes. Exhibit SBT-12 includes summary information regarding each pro
18 forma adjustment included in Schedule G-6.2. This Exhibit includes the
19 pro forma number, title, description, ETI pro forma amount, and supporting
20 witness. The main purpose of this exhibit is to accumulate in one place all
21 originating affiliate pro forma adjustments to the test year, and to provide
22 additional supporting detail for why the pro forma was made.

¹¹ Workpaper WP/ST-2 provides the department descriptions for each department code.

1 Also, workpaper WP/SBT-1 contains the details for each pro forma
2 by Billing Company, FERC account, and project code.

3

4 Q55. HAVE YOU PREPARED ANY ADDITIONAL DOCUMENTS THAT WILL
5 ASSIST REVIEWERS IN UNDERSTANDING THE INFORMATION
6 CONTAINED IN EACH COLUMN OF EXHIBITS B THROUGH D?

7 A. Yes. Although the Company believes that the level of detail that it has
8 provided in this filing is more than sufficient to enable the Commission to
9 evaluate the Company's affiliate costs, the Company recognizes that it
10 may be difficult for a reviewer to recall the type of information that is
11 provided in each column of each of these exhibits. For this reason, I have
12 included in my testimony as Exhibits SBT-B.1, SBT-C.1, and SBT-D.1
13 "roadmaps" that show what question is answered by each column in each
14 exhibit, similar to "roadmap" Exhibit SBT-A.1 that I described earlier.

15

16 Q56. ARE YOU SPONSORING ALL COSTS CONTAINED IN
17 EXHIBITS SBT-A, SBT-B, SBT-C, AND SBT-D?

18 A. No. My Exhibits SBT-A, SBT-B, SBT-C, and SBT-D are an aggregation of
19 all the Exhibits A, B, C, and D for each affiliate witness in the Company's
20 case. Although the affiliate witnesses have attached their Exhibits A, B, C,
21 and D to their direct testimony, it may be more convenient for the reviewer
22 to have a single copy of all these exhibits in one place to facilitate review
23 of the Company's filing. I am a co-sponsor of these exhibits because

1 these cost exhibits include the classes of costs I sponsor (that is, the
2 Depreciation, Service Company Recipient Offsets, and the Other
3 Expenses classes), the exclusions and pro forma adjustments (some of
4 which I sponsor) to the test year affiliate charges for all classes of costs,
5 and the application of the cost allocation methods to the PCs.

6

7 Q57. HAVE YOU PREPARED ADDITIONAL WORKPAPERS SUPPORTING
8 EACH OF THE G-6 SCHEDULES?

9 A. Yes. I have prepared six different sorts of the G-6 schedules, which are in
10 addition to the required FERC account presentation contained in
11 Schedules G-6, G-6.1 and G-6.2. The Company is providing this
12 information in its direct filing in this case to facilitate an efficient, timely
13 review of the Company's affiliate case.

14

15 Q58. HAS THE COMPANY MADE THIS INFORMATION AVAILABLE IN
16 ELECTRONIC FORM?

17 A. Yes. As I explained above, Exhibit SBT-F is a compact disc that includes
18 this information. The Company has invoked Microsoft Excel's "Auto Filter"
19 command in the spreadsheet files to help users find information quickly.

1 Q59. PLEASE DESCRIBE THE VARIOUS WORKPAPERS THAT THE
2 COMPANY HAS PREPARED IN CONNECTION WITH ITS
3 SCHEDULES G-6, G-6.1, AND G-6.2.

4 A. There are six variations of Schedules G-6, G-6.1, and G-6.2 included in
5 the workpapers to the G-6 schedules. They are:

- 6 1) Affiliate billings by billing entity to ETI by billing method and project
7 code (WP/G-6 (set 1); WP/G-6.1 (set 1); and WP/G-6.2 (set 1));
- 8 2) Affiliate billings by billing entity to ETI by FERC account and class
9 (WP/G-6 (set 2); WP/G-6.1 (set 2); and WP/G-6.2 (set 2));
- 10 3) Affiliate billings by billing entity to ETI by class, project code, and
11 billing method (WP/G-6 (set 3); WP/G-6.1 (set 3); and WP/G-6.2
12 (set 3));
- 13 4) Affiliate billings by billing entity to ETI by class, by FERC account,
14 project code, and billing method (WP/G-6 (set 4); WP/G-6.1 (set 4);
15 and WP/G-6.2 (set 4));
- 16 5) Affiliate billings by billing entity to ETI by FERC account, project
17 code, and billing method (WP/G-6 (set 5); WP/G-6.1 (set 5); and
18 WP/G-6.2 (set 5)); and
- 19 6) Affiliate billings by billing entity to ETI by project code, billing
20 method, and FERC account (WP/G-6 (set 6); WP/G-6.1 (set 6); and
21 WP/G-6.2 (set 6)).

22

23 Q60. WHAT IS THE RELATIONSHIP BETWEEN EXHIBITS A, B, C, AND D
24 AND THE COMPANY'S G-6 SCHEDULES?

25 A. The G-6 schedules present the Company's request for all affiliate billings,
26 for the test year, by FERC account and billing entity, as follows:

- 27 1) Schedule G-6 – Total ETI Adjusted amount of affiliate
28 billings,

1 2) Schedule G-6.1 – total per books affiliate billings (after
2 exclusions), and

3 3) Schedule G-6.2 – pro forma adjustments to affiliate billings.

4 The Commission's RFP requires the G-6 schedules to be
5 presented by FERC account.

6 Exhibits A, B, and C present the same amounts that are in the
7 Schedules G-6, G-6.1, and G-6.2, but in various sorts of detail within each
8 class arranged in a way so that the witnesses can further show that the
9 costs meet the affiliate standard. As stated previously, the Company has
10 sorted the amounts by department, by project code, and by both
11 department and project code in Exhibits A, B, and C, respectively.
12 Exhibit D presents for each class of services additional detail on the pro
13 forma adjustments included in Schedule G-6.2. With the use of the
14 workpaper set WP/G-6 (set 4), the reviewer can follow amounts in
15 Exhibits A through D through to the G-6 schedules, which are presented in
16 the required FERC account format. Thus, for example, the reviewer can
17 trace cost data related to a particular class to a FERC account, to a
18 project code, and to a billing method by referring to WP/G-6 (set 4).
19 Similarly, if a reviewer desired to determine what other types of projects or
20 activities were billed utilizing a particular billing method shown in a
21 Company witness's Exhibit C, the reviewer need only turn to WP/G-6
22 (set 1) in order to ascertain this information. I have prepared a chart

1 illustrating how the affiliate cost information fits together (see
2 Exhibit SBT-13).

3
4 Q61. PLEASE EXPLAIN HOW ONE WOULD GET FROM YOUR COST
5 EXHIBITS TO THE G-6 SCHEDULES.

6 A. Note that the same process I will describe below can be used for any of
7 the Exhibits A through C. I will use as an example my Depreciation
8 Affiliate Class, which can be found on Exhibit SBT-A. To trace the data
9 into the G-6 schedules, one would first need to obtain the subtotals of the
10 class by billing entity. The subtotal in Column H (Total ETI Adjusted) of
11 \$2,952,022 for billing entity ESI agrees with the workpaper set WP/G-6
12 (set 4), which is sorted by billing entity, class, FERC account, project
13 code, and billing method. The Depreciation Class is billed to various
14 FERC accounts, as seen on WP/G-6 (set 4). Each of these FERC
15 accounts for the Depreciation Class can be traced into workpaper set
16 WP/G-6 (set 2), which is sorted by billing entity, FERC account and then
17 by class. On WP/G-6 (set 2), each FERC account is subtotaled.

18
19 Q62. HOW COULD A REVIEWER OBTAIN MORE DETAILED INFORMATION
20 ABOUT A PARTICULAR PROJECT CODE?

21 A. For each project code, a reviewer could "drill down" to a very detailed level
22 of information contained in the Project Summaries included in my
23 Exhibit SBT-E. The Project Summaries, which are supported by all

1 witnesses of classes that charged to a particular project code, are
2 arranged in project code order and are indexed by page number.

3

4 Q63. WHAT INFORMATION IS INCLUDED IN EACH PROJECT SUMMARY?

5 A. Each Project Summary shows the following information for each project
6 code:

- 7 • test year billings to ETI by FERC account;
- 8 • test year billings to ETI by class of services;
- 9 • a statement of the purpose of the project code;
- 10 • the primary activities encompassed by the project code;
- 11 • the products or deliverables resulting from the project code; and
- 12 • the billing method associated with the project code and a
13 justification for that billing method.

14

15 Q64. HOW ELSE CAN THE PROJECT SUMMARIES BE USED AS A TOOL
16 FOR REVIEWING AFFILIATE DATA?

17 A. The Project Summaries can be used to trace project code data from the
18 Exhibits B and C into the G-6 Schedules. For example, Financial Services
19 Class costs related to Project Code F3PPF72700, entitled "Cognos
20 Reporting Support," can be found on Exhibit SBT-B. The Total ETI
21 Adjusted amount for the Financial Services Class for this project is
22 \$27,649 for the test year. From Exhibit B, one can obtain a good deal of
23 information about the services provided – billing method, project

description, Total ETI Adjusted amount, etc. For example, Billing Method GENLEDAL is applied to Project Code F3PPF72700. If more detail is required to verify why Billing Method GENLEDAL is appropriate, or which other classes may have charged this project, or the types of activities being provided, one could go to the index of Project Summaries included with Exhibit SBT-E and locate the page number for the Project Summary for Project Code F3PPF72700 (page 1053 of Exhibit SBT-E). The FERC account amounts for this PC can be traced into workpaper set 5 – billings by FERC account, project code, and billing method (WP/G-6 (set 5), WP/G-6.1 (set 5), and WP/G-6.2 (set 5)). On WP/G-6 (set 5), each FERC account is subtotaled by billing entity, and this subtotal will agree to Schedule G-6 for that FERC account.

VI. THE AFFILIATE BILLING PROCESS

Q65. PLEASE DESCRIBE THE AFFILIATE TRANSACTIONS THAT PRIMARILY AFFECT ETI'S COST OF SERVICE IN THIS APPLICATION.

A. Two categories of affiliate costs affected ETI's cost of service for the test year:

- the cost of the services ESI provides that are directly billed or allocated to ETI; and
- charges from other Operating Companies and from ETI's other affiliates that are directly billed to ETI for services rendered.

1 Exhibit SBT-14 depicts the relationship between affiliate costs and
2 ETI's cost of service. To understand these categories of affiliate
3 transactions, it is important to understand the affiliate billing process.

4

5 Q66. PLEASE DESCRIBE THE PROCESS USED BY THE ENTERGY
6 COMPANIES TO CHARGE AFFILIATES FOR SERVICES PROVIDED.

7 A. ESI and the other Entergy-affiliated companies use three mechanisms to
8 bill affiliates for services rendered: 1) project billings; 2) loaned resource
9 billings; and (3) co-owner billings. These mechanisms are included in the
10 affiliate billing process ("billing process"). Project billings are transactions
11 billed to affiliates for services rendered using PCs to determine how costs
12 should be billed to affiliates. Loaned resource billings are transactions
13 that bill charges directly to the Department and/or Business Unit that is the
14 recipient of the services provided. Loaned resource billings include
15 charges for the payroll applicable to "loaned" employees (for example line
16 crews from one Operating Company sent to assist another Operating
17 Company in storm restoration), transportation, and materials and supplies.
18 Co-owner billings include costs incurred by one Entergy affiliate for the
19 operation and maintenance of a jointly-owned plant, and subsequently
20 transferred to another affiliate based on their ownership. During the test
21 year, EGSL transferred costs to ETI related to the jointly-owned Nelson 6
22 plant using the co-owner billing process. The co-owner billing process
23 and the Nelson 6 billings are discussed more fully in the Direct Testimony

1 of Company witness Fontenot. Entergy service companies such as ESI
2 typically bill via project billings. Other affiliates can only use loaned
3 resource billings or co-owner billings when billing or transferring costs to
4 an affiliate.

5

6 Q67. PLEASE SUMMARIZE THE CONTROLS THAT HAVE BEEN
7 ESTABLISHED TO HELP ENSURE THAT BILLINGS TO AFFILIATES
8 PROPERLY REFLECT THE ACTUAL COST OF AN ITEM OR SERVICE.

9 A. There are several controls in place to help ensure that billings to affiliates
10 represent the actual costs of items or services provided to such affiliates.

11 These process controls include:

- 12 • Multiple Approvals of PCs
- 13 • Approval of Loaned Resource Billing Transactions
- 14 • Co-owner Allocation Rules
- 15 • Approval of Source Documentation
- 16 • Budget Process Activities
- 17 • Monthly Allocation Results and Billing Analysis
- 18 • Authorization Required to Access Corporate Applications
- 19 • Billing Analysis Review Team ("BART") Monthly Reviews of ESI
20 Billings
- 21 • Employee Training
- 22 • Internal Reviews of Affiliate Transactions and Processes
- 23 • External Reviews and Audits of Affiliate Transactions and
24 Processes

- Sarbanes-Oxley Controls and Testing
- FERC Compliance Controls and Testing
- Affiliate Transactions Policy

Each of the controls is an integral part of a multi-faceted process that is designed to bill the appropriate share of reasonable and necessary costs to the Operating Companies. A more detailed description of these billing controls is included in Attachment 8 to my Exhibit SBT-15. Exhibit SBT-15 is an exhibit that explains a number of different aspects of the ESI billing process.

VII. ESI SERVICE BILLINGS

A. Overview of the ESI Billing Process

Q68. PLEASE PROVIDE A BRIEF EXPLANATION OF YOUR EXHIBIT SBT-15: "AFFILIATE BILLING PROCESS DISCUSSION."

A. As I discussed earlier, ESI and the other Entergy-affiliated companies use three mechanisms to bill affiliates for services rendered: 1) project billings; 2) loaned resource billings; and 3) co-owner billings. These mechanisms are included in the affiliate billing process, which is discussed in detail in my Exhibit SBT-15, "Affiliate Billing Process Discussion." For further clarification, I have included nine attachments to Exhibit SBT-15:

- 1) SBT-15 Attachment 1 – Comparison of Affiliate Billing Mechanisms Overview;
- 2) SBT-15 Attachment 2 – Affiliate Billings by Billing Type;

- 1 3) SBT-15 Attachment 3 – Billable Project Code Set-Up and Use
2 Flowchart;
- 3 4) SBT-15 Attachment 4 – Guidelines for Completing a Project Scope
4 Statement;
- 5 5) SBT-15 Attachment 5 – The Service Company Billing Process
6 Flowchart;
- 7 6) SBT-15 Attachments 6a, 6b, and 6c – ESI Billing Method Tables;
- 8 7) SBT-15 Attachment 7 – Billing Method Summary;
- 9 8) SBT-15 Attachment 8 – Affiliate Billing Process Controls; and
- 10 9) SBT-15 Attachment 9 – Deloitte & Touche, LLP's 2012
11 Independent Accountant's Report on Applying Agreed-Upon
12 Procedures (dated June 17, 2013).

13

14 Q69. PLEASE DESCRIBE THE ESI BILLING PROCESS.

15 A. The vast majority of ESI's billings to ETI are project billings. In order to bill
16 an affiliate for services provided via a project billing, a transaction must
17 have an assigned PC. Each PC is assigned a single billing method that
18 determines how costs captured under the PC will be distributed. The
19 billing method results in either a "direct" billing (billed 100% to one affiliate)
20 or an "allocation" to multiple affiliates. When services are provided to
21 multiple affiliates, charges for services rendered by ESI are allocated
22 using billing methods based on FERC-accepted formulae.

23

24 Q70. WHEN IS THE PROJECT CODE ASSIGNED TO A TRANSACTION?

25 A. The PC is assigned at the time the transaction is entered into a source
26 system (e.g., Time Entry System, Accounts Payable). The employee