submitting the charge is most familiar with the charge, and is responsible for applying the correct PC to the transaction. In addition, the employee's budget coordinator may assist in determining the correct PC for a specific cost.

In addition, several allocations, such as payroll and other loaders, will create additional transactions. They will typically follow the PCs used on the source transactions for which they are based.

Q71. PLEASE DESCRIBE THE TIME ENTRY SYSTEM USED BY THE ENTERGY COMPANIES.

A. The Entergy Companies use the PeopleSoft Time & Labor system. This system is an electronic time and attendance system and is an important part of the Entergy Companies' cost and service tracking process. Employees or timekeepers are responsible for populating electronic timesheets each pay period with appropriate accounting codes, including PCs, and actual hours worked, among other things. At the end of each pay period, the employee's supervisor is responsible for reviewing and approving the timesheet data.

Q72. PLEASE SUMMARIZE THE CONTROLS THAT ARE IN PLACE TO ENSURE THE ACCURACY OF THE INFORMATION RECORDED ON THE TIMESHEETS IN TIME & LABOR.

A. In addition to the individual responsibilities of employees and supervisors described above, the Time & Labor system has been programmed with certain validation functionality (*e.g.*, validity and compatibility edits for the accounting code input data) and notification procedures to alert the employee when accounting code values, including PCs, are invalid, incompatible, or incomplete. Training on the Time & Labor system is conducted within each department. Assistance is also available through the payroll administrator and through the Financial Processes Help Desk, also referred to as the Financial Operations Center ("FOC") Help Desk.

Each ESI employee is ultimately responsible for charging the costs that he or she incurs to the appropriate PC, and thus appropriately billing the companies receiving the services. As a guide, ESI Time and Expense Training materials are posted on the Affiliate Accounting and Allocations section of the Entergy Companies' internal web. All ESI employees are required to acknowledge their review of these training materials on an annual basis. This training stresses the importance of choosing the correct PC. It also discusses the role of billing methods in billing the appropriate companies for services rendered, and emphasizes that direct billing is preferred over allocating charges where possible. The training also reviews how to determine which PC should be used for specific services. These ESI Time and Expense Training materials are included as Exhibit SBT-16.

As discussed earlier in my testimony, and as discussed in Attachment 8 of Exhibit SBT-15, there are several other controls in place to ensure that billings to affiliates properly reflect the actual cost of an item or service.

Q73. HOW ARE PROJECT CODES INITIATED AND MADE AVAILABLE FOR USE?

A. As I previously mentioned, the Entergy Companies use a project costing application (PowerPlant) that provides a single point of entry for all PCs. When a particular department determines that a new project or service is being initiated, PowerPlant is used by that department to set up the PC. During set-up, the preparer of the PC request enters several elements to establish a PC. The preparer provides a descriptive title for the PC and determines the appropriate billing method, which may directly bill one affiliate or allocate costs to multiple affiliates. The billing method is determined based on cost causation principles for the particular project. The preparer also describes the scope of the PC, including its overall purpose, the primary activities to be performed, the products or deliverables expected, and a justification of the billing method selected. This scope, as well as all of the attributes associated with the PC, are stored in PowerPlant and can be referenced by users as needed.

Exhibit SBT-15 includes a more detailed discussion of the project billing process used by ESI. A breakdown of ESI's billings by project code is shown in Exhibit SBT-8.

Q74. DOES THE AFFILIATE BILLING PROCESS ENSURE THAT THE COSTS CHARGED BY ESI TO ETI ARE NO HIGHER THAN THE COSTS CHARGED TO OTHER AFFILIATES FOR THE SAME OR SIMILAR ACTIVITIES AND SERVICES?

A. Yes. The following features of the billing system help ensure that ESI does not charge a higher unit cost to ETI than to other affiliates for the same or similar activities and services:

1) ESI always bills its services to regulated companies at cost, with no profit added, based on cost causation;

2) the billing method is selected based on the principle of cost causation to ensure that every affiliate that causes the cost in the PC is appropriately included in the allocation of costs; and

3) because each PC has only one billing method associated with it, all affiliates that receive the service are charged at the same unit rate for a given PC; therefore, the cost for a given unit of service is equal for all affiliates receiving the service.

Q75. HOW DOES THE AFFILIATE BILLING PROCESS ENSURE THAT THE PRICE CHARGED BY ESI TO ETI REPRESENTS THE ACTUAL COST OF SERVICES?

A. With respect to direct billings, because ESI charges no more than actual costs for services provided to regulated companies, the price charged to

ETI represents the actual cost. With respect to allocated costs, because ESI charges the regulated companies at cost and utilizes the principle of cost causation in identifying a billing method, the unit price charged to ETI represents the actual cost.

Q76. DOES YOUR TESTIMONY INCLUDE A SUMMARY OF CONTROLS TO ENSURE THE ACCURACY OF THE ESI AFFILIATE BILLINGS?

A. Yes. Those controls are generally summarized in the Affiliate Billing Process section of my testimony. In addition, these controls are discussed in more detail in Attachment 8 of Exhibit SBT-15.

Q77. ARE THERE ANY REVIEWS OF THE CONTROLS OVER THE ACTIVITIES AND SERVICES AND THE RELATED COSTS THAT ESI PROVIDES?

A. Yes. Internal Audit reviews the controls and performs tests of transactions and balances related to affiliate billings. Specifically in connection with the Sarbanes-Oxley Act, Internal Audit reviews the risks, control activities, and testing of those control activities associated with the affiliate billing process. Their review includes the related funding, allocations, and intercompany account reconciliation processes associated with the overall affiliate billing process.

In addition, external reviews and audits of affiliate transactions and processes are conducted routinely. For instance, D&T performs certain agreed-upon procedures annually at the request of the Entergy Companies to satisfy a requirement included in an October 1992 Settlement Agreement, as amended, between certain regulators and the Entergy Companies that pertains to billings from Entergy affiliates to EEI. D&T selects several intercompany transactions billed to EEI by Entergy affiliates to ensure that they were billed in accordance with PUHCA 2005 affiliate billing requirements. D&T's "Independent Accountants' Report on Applying Agreed-Upon Procedures" for the year ended December 31, 2012, is included as Attachment 9 to Exhibit SBT-15.

In addition, the annual external audit of Entergy Corporation and its subsidiaries' financial statements performed by D&T helps to detect whether the inter-company accounts and billing processes are producing any material misstatements in the financial statements. The Sarbanes-Oxley Act also requires that an independent auditor attest to the accuracy of the Entergy Companies' disclosure regarding the effectiveness of its internal controls. In this connection, D&T also reviews risks, control activities, and testing of control activities associated with the affiliate billing processes.

Further, in its oversight role under PUHCA 2005, the FERC is authorized to conduct audits of Entergy service company transactions. As discussed earlier in my testimony, the most recent FERC audit of Entergy's four service companies, including ESI, covered the period January 2006 through December 2008.

Q78. DO YOU HAVE ANY INDEPENDENT VERIFICATION THAT THE CONTROLS ARE FUNCTIONING PROPERLY?

A. Yes. PwC performed an independent attestation examination of management's assertion on the presentation of costs billed by ESI and other Entergy affiliates to ETI for the twelve-months ended March 31, 2013.[12] PwC's attestation examination included, among other things: 1) consideration of controls surrounding the affiliate billing process; 2) documentation included in the PC scope statements, including a description of the PC's use and purpose, the activities associated with that particular project, the expected deliverables from activities in the project, and justification for the billing method to be used for billing the costs accumulated in the project; and 3) testing of affiliate service charges billed during the test year for this docket.

Q79. PLEASE EXPLAIN WHAT YOU MEAN BY "PC SCOPE STATEMENTS."

A. A PC scope statement is a narrative description of the work that is to be undertaken to which each PC is assigned. The PC scope statements, included as part of the Project Summaries in my Exhibit SBT-E, provide information regarding the purpose of the project, the primary activities to be undertaken under the project, the primary products or deliverables of the project, the billing method that applies to the project, and the

[12] Workpaper WP/SBT-3 includes ESI's management assertion and PwC's report in connection with this attestation examination.

justification for that billing method. I have discussed the contents of these Project Summaries in more detail previously in my testimony.

Q80. PLEASE SUMMARIZE YOUR UNDERSTANDING OF PWC'S CONCLUSIONS RELATING TO AFFILIATE SERVICE CHARGES.

A. PwC's independent attestation examination of management's assertion on the presentation of costs allocated by ESI and other Entergy affiliates to ETI concluded that management's assertion was fairly stated in all material respects. Management asserted that ESI has allocated costs accumulated in identified PCs on a cost causative basis using billing methods that ensure accurate recording and billing of the costs associated with the provision of the related services. Management further asserted that billing methods used to allocate costs by ESI ensure that costs charged to ETI reasonably approximate the actual costs of services provided and are no higher than the costs charged to other affiliates for similar services.

Q81. PLEASE SUMMARIZE YOUR UNDERSTANDING OF PWC'S CONCLUSIONS RELATING TO PC SCOPE STATEMENTS.

A. PwC concluded that management's assertion regarding the PC scope statements was fairly stated in all material respects, *i.e.* the PC scope statements adequately described the project purpose, primary activities, products or deliverables, and rationale for billing method assignment.

Q82. DOES THE TOTAL ETI ADJUSTED AMOUNT ON THE G-6 SCHEDULES INCLUDE THE RECOMMENDATIONS MADE BY PWC AS A RESULT OF ITS ATTESTATION EXAMINATION OF MANAGEMENT'S ASSERTION ON THE PRESENTATION OF COSTS ALLOCATED BY ESI AND OTHER ENTERGY AFFILIATES TO ETI?

A. Yes. The Total ETI Adjusted amount on the G-6 schedules reflects all of the pro forma adjustments on Exhibit SBT-D. This exhibit includes various adjustments due to PC billing method changes (Pro Forma Number AJ21-J). The net effect of these adjustments is an increase in costs billed to ETI of $627 which is included in the Total ETI Adjusted amount in test year affiliate charges.

B. Summary of ESI Billings to Affiliated Companies

Q83. WHAT WERE TOTAL BILLINGS FROM ESI TO THE AFFILIATED COMPANIES DURING THE TEST YEAR?

A. ESI billed approximately $938 million to its affiliate companies during the test year for services provided. The following exhibits to my testimony contain schedules that present views of ESI billings to affiliates:

- Exhibit SBT-8 – ESI Test Year Per Book Billings to Affiliates by Project
- Exhibit SBT-17 – Direct vs. Allocated ESI Test Year Per Book Billings to Affiliates

Q84. WHAT HAPPENS TO CHARGES THAT ARE BILLED BY ESI TO THE OTHER SERVICE COMPANIES, SUCH AS EOI AND EEI?

A. After ESI bills another service company for services rendered, the billed affiliate in turn bills the costs to its affiliates. For instance, when ESI bills EOI for services rendered, EOI will bill one or more of the regulated nuclear plants that it serves (*e.g.*, EGSL's River Bend facility) for the cost. When ESI bills EEI for services rendered, the costs are billed by EEI to one or more of its affiliates. No costs billed by ESI to EOI and EEI are subsequently billed by those Business Units to ETI.

Q85. WHAT IS THE LEVEL OF CHARGES FROM ESI TO ETI DURING THE TEST YEAR?

A. ESI billed ETI approximately $89 million during the test year, or approximately 9.5% of ESI's total billings to all affiliates during the test year (as seen on Exhibit SBT-8). This figure is a total per book number, which includes expense and capital amounts billed to ETI. After taking into account exclusions and pro forma adjustments for ESI charges billed to ETI, the Total ETI Adjusted number is approximately $53 million (the remaining $12 million of the Total Requested amount relates to charges from other Entergy affiliates).

Q86. HAVE THERE BEEN ANY CHANGES TO THE ESI BILLING PROCESS SINCE THE COMMISSION'S LAST REVIEW OF THE AFFILIATE BILLING PROCESS IN DOCKET NO. 39896?

A. No. There have been no substantive changes to the ESI billing process since the Commission's last review of ETI's rates in Docket No. 39896.

C. Billing Methods

1. Billing Method Overview

Q87. IN SECTION VII.A ABOVE YOU DESCRIBED HOW A BILLING METHOD CHOSEN FOR A PROJECT CODE ENSURES THAT ETI IS BILLED ONLY THOSE COSTS ATTRIBUTABLE TO ETI. DO YOU HAVE AN EXHIBIT THAT PROVIDES MORE INFORMATION REGARDING THE BILLING METHOD ASSIGNMENT PROCESS?

A. Yes. As described in the billing process discussion in Exhibit SBT-15, after the preparer of a PC request selects a billing method, it is reviewed for reasonableness by both the intermediate approver of the PC and the Affiliate Accounting and Allocations team that I oversee. If the billing method selected does not appear to reflect cost causation, the approver may contact the preparer for clarification as to why the billing method was chosen, or may reject the request until the billing method is adequately justified or another billing method is selected to ensure that the billing method is appropriate for the services provided under the PC. Attachment 4 to Exhibit SBT-15 contains guidelines for preparing PC scope statements, including the selection and justification of a cost causative billing method.

Q88. PLEASE EXPLAIN HOW ESI DEFINES "DIRECT" VERSUS "ALLOCATED" BILLINGS.

A. ESI defines direct billings as those that are billed 100% to one affiliate. Costs included in direct billings are incurred exclusively for the benefit of one affiliate. ESI defines allocated billings as those that are distributed using a formula that allocates costs to two or more affiliates. Costs included in allocated billings are incurred for the benefit of more than one affiliate.

Q89. DOES ESI BILL DIRECTLY FOR SERVICES PROVIDED TO THE REGULATED AFFILIATES WHENEVER APPROPRIATE?

A. Yes. The former SEC regulations required that service costs be billed directly to an affiliate as long as such costs can be reasonably identified as caused by an affiliate. Under PUHCA 2005, the FERC adopted this "carryover" SEC provision.

However, it is important to note that the fundamental purpose of a service company such as ESI is to achieve benefits from consolidation and economies of scale for multiple companies. Therefore, the bulk of ESI's costs may necessarily be incurred to provide common services required by multiple companies, which require an allocation of costs. For example, there are several filings that are required by regulatory agencies that include information for numerous affiliates. Because one filing often serves multiple legal entities, the employees working on that document will charge their time using a PC that employs an allocation factor that represents a cost causative relationship to the work performed.

Direct billings from ESI to ETI were 25% of ETI's total charges from ESI during the test year. Exhibit SBT-17 depicts the percentage of direct versus allocated billings from ESI to each of the affiliates to which ESI provides service. As evidenced by this exhibit, ETI's direct billings from ESI are in line with the direct billings received by the other operating companies.

Q90. DOES ESI DIRECTLY BILL EEI FOR SERVICES PROVIDED TO EEI ON BEHALF OF THE NON-REGULATED AFFILIATES WHENEVER APPROPRIATE?

A. Yes. As noted above, the Operating Companies have similar operations, which provide opportunities for consolidation of services provided to them by ESI. Although the provision of similar services by a single provider results in economies of scale, this often requires an allocation of costs instead of direct charging. However, because Entergy's non-regulated subsidiaries require many services that are not similar to those of the regulated utility Operating Companies, the non-regulated companies are not likely to share as many "consolidated" services as the regulated companies. Instead, because of the variation in requested services provided to the non-regulated affiliates, direct billings to the non-regulated affiliates occur more often than direct billings to the Entergy Operating Companies. As shown on Exhibit SBT-17, direct billings to EEI (which receives the majority of non-regulated billings and, in turn, bills the appropriate subsidiary) represent 40% of the total billings by ESI to EEI. As noted above, many services provided by ESI to non-regulated affiliates are billed by ESI to EEI, rather than to the individual non-regulated affiliates that receive those services. This does not mean, however, that ESI is "underbilling" the non-regulated affiliates for the services they receive. The billing methods applied to the project codes applicable to these services ensure that the non-regulated affiliates are paying for their applicable share of these costs (if allocated), or the full cost if the project code direct bills the entire cost to EEI. Exhibit SBT-15 Attachment 6c includes the statistics of each non-regulated company that were included in calculating billing methods.

Q91. DOES ESI EVER USE MORE THAN ONE BILLING METHOD FOR A GIVEN PC?

A. No. Because each PC captures a specific service, each PC has only one billing method assigned to it, and the billing method is selected to ensure that every affiliate receiving the service also receives an appropriate allocation. Therefore, the costs related to all services performed under a

PC that is not directly billed are allocated among affiliates using the same criterion (such as number of accounts payable transactions or number of customers). The use of a single billing method ensures that all affiliates causing costs to be incurred and receiving the service pay an appropriate proportion of the costs. This also ensures that the affiliates are, in total, charged no more and no less than 100% of the costs for services provided under the PC. Also, the use of a single billing method, which is assigned based on cost causation principles, ensures that each affiliate is paying the same per unit price for the same service, and that the prices charged to ETI are no higher than the prices charged by ESI to the other affiliates for similar services.

Q92. AFTER THE COSTS OF ESI'S SERVICES ARE CAPTURED BY A PC, HOW ARE COSTS ALLOCATED AMONG THE APPROPRIATE COMPANIES?

A. One billing method is assigned to each PC for each service company. Depending on the assigned billing method, the cost of services rendered will be billed directly to a single affiliate or allocated among several affiliates. Billing methods are based on allocation formulae. Under PUHCA 2005, these allocation formulae must be reviewed and accepted by the FERC. Each allocation formula is based on data relevant to the affiliated companies.

There are approximately 50 formulae currently in use by ESI that are used to derive billing methods. The FERC has reviewed and accepted each of these formulae. Examples of these allocation formulae are: total average number of customers, number of personal computers, and transmission line miles.

One allocation formula may be the basis of several billing methods used in the project billing process. For example, ESI has several billing methods that use the total number of customers allocation formula, including: Billing Method CUSEOPCO, based on average electric customers for the utility Operating Companies; and Billing Method CUSTEGOP, based on average electric and gas customers for the utility Operating Companies. Billing methods that use a common basis for allocation, such as those mentioned above, are referred to collectively as a "billing method family." Attachment 6b to Exhibit SBT-15 provides the billing methods used during the test year. This exhibit includes each billing method, the title of each billing method, and the percentage of total costs allocated to each affiliate for each billing method.

Q93. PLEASE SUMMARIZE HOW THE BILLING METHODS WORK.

A. Services that are provided by ESI to only one Entergy affiliate are billed using direct billing methods, which by definition bill only one affiliate. Services that are provided to more than one affiliate are allocated in accordance with formulae reviewed and accepted by FERC. As previously discussed, billing methods that distribute costs using these formulae are often termed allocation methods. There were 171 direct and allocated billing methods derived from FERC-accepted formulae in order to bill ESI affiliate costs to the Entergy-affiliated companies during the test year. Of these billing methods, approximately 37% are direct billing methods (one billing method for each business unit ESI serves directly), and the remainder represent variations of the allocation formulae, as discussed above. However, as noted on Attachment 7 of SBT-15, only 79 of the 171 ESI billing methods were used to bill costs to ETI during the test year as reflected in the Total ETI Adjusted amount.

2. Billing Method Calculations

Q94. WHAT ARE THE ESI BILLING METHODS THAT WERE USED TO BILL COSTS FOR SERVICES TO ETI DURING THE TEST YEAR?

A. Exhibit SBT-18 is a chart that includes each ESI billing method that was used to bill costs to ETI during the test year. The chart provides the billing method number, the billing method family to which each method is associated, the basis on which the method is calculated, and the types of costs that are allocated using each method.

Q95. DID ESI USE ANY BILLING METHODS TO ALLOCATE COSTS TO ETI DURING THE TEST YEAR OTHER THAN THOSE INCLUDED IN EXHIBIT SBT-18?

A. No.

Q96. PLEASE DESCRIBE HOW EACH ALLOCATION METHOD EMPLOYED BY ESI DURING THE TEST YEAR IS CALCULATED.

A. Each allocation method is calculated by taking each business unit's pro-rata share of the cost driver statistics (such as number of accounts payable transactions or number of employees). For each allocation method, Attachment 6b of Exhibit SBT-15 includes the percentages allocated to each affiliate as well as the statistics used to come up with those percentages. For Attachment 6b, all non-regulated percentages and statistics are included in the "EEI" column. Attachment 6c was prepared to provide the individual non-regulated companies included in the statistics for "EEI."

As previously required by the SEC under PUHCA 1935 and now recognized by FERC under PUHCA 2005, all ESI services to ETI are billed at cost. The specific billing method chosen for a particular type of charge is selected to provide an appropriate matching of costs with the cost drivers. Every affiliate that causes the cost and receives the service provided is included in the cost allocation.

D. Service Company Recipient Allocation (also referred to as Shared Services Loader)

Q97. DOES THE ESI AFFILIATE BILLING PROCESS INCLUDE A MECHANISM THAT CAPTURES AND ALLOCATES THE COSTS ASSOCIATED WITH SERVICES THAT ESI PROVIDES TO ITSELF?

A. Yes. In addition to being the provider of services to affiliates, ESI also provides services to itself so that it, in turn, can provide services to its affiliates. Therefore, under cost causation billing, ESI is also a receiver of costs associated with the services it provides. The mechanism that allocates the costs associated with the services ESI receives is currently known as the "Service Company Recipient Allocation." This allocation is actually comprised of several types of costs, including information technology, desktops and telephones (discussed more specifically by Company witness Julie F. Brown), facilities-related costs such as rents and space management (discussed more specifically by Company witness Thomas C. Plauché), Human Resources-related costs (discussed more specifically by Company witness Raeder), and the like.

Q98. HOW DOES ESI CAPTURE THE COSTS ASSOCIATED WITH ESI SERVICES RECEIVED?

A. ESI captures the costs associated with ESI services received by including ESI as one of the legal entities to which ESI costs may be billed. Examples of cost causative allocation methods of which ESI is a recipient are APTRNALL (Accounts Payable Transactions), GENLEDAL (General Ledger Transactions), and PRCHKALL (Payroll Checks Issued). Because ESI creates Accounts Payable ("AP") invoices, has its own General Ledger ("GL") transactions, and has employees who receive payroll checks, a portion of the costs are caused by ESI. Also, like other affiliates, ESI may directly bill costs to itself for services solely caused by ESI using a direct billing method. Examples of costs that may be directly billed to ESI are office supplies, professional fees, and rent associated with ESI employees only.

Q99. WHERE DOES ESI RECORD THE COSTS ASSOCIATED WITH ESI SERVICES THAT ARE BILLED TO ESI?

A. During the PC billing process, all ESI expenses billed to ESI are deferred on the balance sheet using a clearing account (Account 184SSL). In particular, all of the costs received by ESI in the PC billing process are assigned to Account 184SSL and further separated by the following functions: Information Technology, Support – Operations, Support – Corporate, Supply Power – Nuclear, and President/CEO.

Q100. HOW ARE THE COSTS ACCUMULATED IN ACCOUNT 184SSL ALLOCATED?

A. A second-tier allocation called Service Company Recipient Allocation clears the Account 184SSL balance and distributes the costs to the affiliates that are using the services of ESI employees. This is also consistent with cost causation principles. It is appropriate to bill companies a pro-rata share of ESI costs based on the amount and type of ESI services they receive because the demand for ESI services drives the costs associated with ESI.

Q101. PLEASE DESCRIBE THE SERVICE COMPANY RECIPIENT ALLOCATION PROCESS.

A. During the PC billing process, both the "pool" and "basis" for the Service Company Recipient Allocation are created. The pool is the portion of monthly costs associated with services received by ESI, which occurs when ESI bills itself. Such costs within this pool are identified by function. The basis is the total monthly labor billings to each affiliate to which ESI provides services in a given month. Such billings are also identified by function. Thus, a loader rate for each function can be calculated.

Q102. HOW IS THE LOADER RATE CALCULATED?

A. The loader rate for each function is determined by dividing the total amount of costs in the pool for a function for that month by the total amount of labor billings (the basis) to affiliates for each function for the same month. Though typically stable, the monthly loader rates may vary as the functional pool and basis vary. The loader rate then is applied to labor billing results to distribute the costs in the pool. The Affiliate

Accounting and Allocations group reviews the pool and basis amounts monthly to ensure that they are reasonable.

Q103. PLEASE PROVIDE AN EXAMPLE OF THE SERVICE COMPANY RECIPIENT ALLOCATION PROCESS.

A. In the following example, the Human Resources ("HR") department provides staffing services to the Fossil organization. The HR employees assign their time to a PC that bills based on the number of fossil-fueled generation plant ("Fossil") employees within each Entergy subsidiary. Because ESI has Fossil employees, ESI receives a portion of the billing, which is assigned to the 184SSL account. This is classified as an overhead cost for ESI Fossil employees. During the same billing process, ESI Fossil employees bill their labor out to those companies receiving their services via the billing method assigned to each PC used.

Once the PC billing process described above is complete, the Service Company Recipient Allocation begins. In this second-tier allocation, the total dollar amount that was billed to ESI for services provided to ESI Fossil employees by Human Resources (contained within the Support-Corporate pool) is distributed to the labor amounts that were billed by the ESI Fossil group (the basis), thereby loading the Fossil organization's labor billings with their share of service company recipient charges.

Q104. WHY DOES ESI USE THIS TWO-TIERED APPROACH FOR BILLING?

A. The two-tiered approach is used to ensure that all the costs (both overhead and direct) are paid for by the affiliates that cause the costs. It is important that ETI be able to determine the total cost associated with its projects and services. The Service Company Recipient Allocation ensures that overheads associated with managing each ESI function are loaded to the projects to which those functional employees charged their time. This enables each project to be fully-loaded with both the direct costs assigned to the project as well as service company recipient charges.

E. Payroll Loaders

Q105. WHAT ARE PAYROLL LOADERS?

A. Payroll loaders allocate payroll-related costs, specifically payroll taxes, employee benefits, post-employment benefits, stock options, certain incentive compensation, and paid time off. Each of these costs has its own loader. These payroll-related costs are loaded to projects so that each project is fully-loaded with both the direct labor costs and the associated payroll loaders.

Q106. PLEASE SUMMARIZE THE PAYROLL LOADERS PROCESS.

A. The Human Resources department provides Affiliate Accounting and Allocations with base standard rates for employee benefits, post-employment benefits, and stock options, while the Compensation and Benefits Design department provides the base standard rates for incentives. These base standard rates are based on total payroll. The base standard rate for payroll taxes is calculated by the Affiliate Accounting and Allocations group based on payroll taxes paid during the prior year as a percentage of the total payroll paid during the prior year. Because payroll allocations load only on productive payroll rather than total payroll, the Affiliate Accounting and Allocations group adjusts these base standard rates by productive factors to generate actual loader rates. The actual loader rate for paid time off is also calculated by the Affiliate Accounting and Allocations group based on the percentage of non-productive payroll to productive payroll.

The loader rates for employee benefits, post-employment benefits, stock options, incentives, and paid time off are applied to productive straight-time payroll (excluding overtime). The loader rate for payroll taxes is applied to total productive payroll (including overtime). All loaders are assigned the same PC as the labor, so that they properly follow the same billing distribution as the labor dollars on which they are based. As I explained earlier in my testimony, each PC is assigned one billing method that will most appropriately allocate the charges to the companies receiving the services based on cost causation principles.

Q107. HOW OFTEN ARE LOADER RATES REVIEWED AND ADJUSTED, IF NEEDED?

A. The loader rates for payroll taxes, employee benefits, post-employment benefits, stock options, incentives, and paid time off, are reviewed for reasonableness by the Affiliate Accounting and Allocations group on a quarterly basis and adjusted, or trued-up, as needed.

VIII. OTHER AFFILIATE BILLINGS

Q108. BESIDES ESI, WHICH ENTERGY COMPANIES BILLED ETI FOR SERVICES RENDERED DURING THE TEST YEAR?

A. Each of the Operating Companies billed ETI for services rendered. There are several reasons for the Operating Companies to provide services to one another. For instance, materials from the storeroom of one Operating Company are often transferred to another. Also, one Operating Company may assist another in an emergency situation, such as during a storm and subsequent storm restoration. An Entergy affiliate can also charge a percentage of the operating costs of a shared plant to another Entergy affiliate through the co-owner billing process. As noted previously, during the test year, EGSL charged operating costs to ETI related to the jointly-owned Nelson 6 plant. The following exhibits provide a listing of test year per book billings by project/activity code for each Operating Company to its affiliates and for Entergy's non-regulated affiliates to the regulated affiliates:

- Exhibit SBT-19 – Entergy Arkansas Billings to Affiliates;
- Exhibit SBT-20 – Entergy Gulf States Louisiana Billings to Affiliates;
- Exhibit SBT-21 – Entergy Louisiana Billings to Affiliates;
- Exhibit SBT-22 – Entergy Mississippi Billings to Affiliates;
- Exhibit SBT-23 – Entergy New Orleans Billings to Affiliates; and
- Exhibit SBT-24 – Entergy Non-Regulated Affiliates Billings to Regulated Affiliates

IX. SPONSORED CLASSES OF AFFILIATE COSTS

A. Overview

Q109. WHAT IS THE PURPOSE OF THIS SECTION OF YOUR TESTIMONY?

A. I sponsor the following three classes of affiliate costs:

1) Depreciation. The Depreciation Class includes the cost for the depreciation and amortization of ESI assets. These assets are used by ESI in the provision of services to its affiliate companies;

2) Service Company Recipient Offsets. The Total ETI Adjusted amount for the Service Company Recipient Offsets Class is zero. This class is set-up for Accounting purposes only; and

3) Other Expenses. The Other Expenses Class primarily includes certain employee benefits costs, incentive compensation adjustments, the credit ETI received from the 5% upcharge to the non-regulated affiliates, and other miscellaneous costs not associated with other specific classes.

As shown on my Exhibits SBT-5 and SBT-6, these three classes are in the Accounting Entries function, which is included in the Corporate Support family.

Q110. WITH REGARD TO THE THREE CLASSES THAT YOU SPONSOR, DO THE BILLINGS PROVIDED TO ETI DURING THE TEST YEAR MEET THE COMMISSION STANDARDS FOR INCLUSION OF SUCH COSTS IN RATES?

A. Yes. The billings to ETI during the test year in the three classes of costs that I sponsor meet the Commission standards for inclusion of such costs in rates (noting, again, that there are no costs from the Service Company Recipient Offsets Class included in the Total ETI Adjusted amounts in this case). Specifically:

1. The charges billed to ETI during the test year were reasonable and necessary for the operation of ETI.

2. The amount charged to ETI through the PC billing process, the co-owner billing process, and the loaned resource billing process for each cost or class of costs during the test year are no higher than the amount charged to the other affiliates or non-affiliated persons for these classes of costs.

3. The amounts charged to ETI during the test year represent the actual costs of services provided to ETI.

4. As with all other classes of affiliate costs, expenses that are not allowed for ratemaking purposes are included in the billed expenses, but are excluded from the Total ETI Adjusted amount as below-the-line expenses in accounts such as Account No. 426, and/or are included in the pro forma adjustments shown on Schedule G-6.2, and, therefore, are not included in cost of service.

5. The items charged to ETI are not duplicative of items already provided by or for ETI.

B. Depreciation Class

1. Description of Class

Q111. PLEASE BRIEFLY DESCRIBE THE DEPRECIATION CLASS OF AFFILIATE COSTS.

A. This class represents the cost of depreciation and amortization of ESI assets. These assets are used by ESI for the provision of services to its affiliate companies.

Q112. WHAT IS THE TOTAL ETI ADJUSTED AMOUNT FOR THIS CLASS OF SERVICES?

A. As shown in Exhibits SBT-A, SBT-B, and SBT-C, the Total ETI Adjusted amount for this class of services is $2,952,022. Of this amount, ESI directly billed 26% of the amount, and allocated 74% of the amount, to ETI. The following table summarizes this information for the Depreciation Class. The table shows for each class the following information:

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

		Total ETI Adjusted		
Class	Total Billings	Amount	% Direct	% Allocated
Depreciation	$44,969,923	$2,952,022	26%	74%

Q113. PLEASE DESCRIBE THE EXHIBITS THAT SUPPORT THE INFORMATION INCLUDED IN THE TABLE ABOVE.

A. Please see Exhibits SBT-A, SBT-B, and SBT-C, which I described above in connection with my affiliate overview presentation. For each of these exhibits, the amounts in the columns represent the following information:

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

I have explained the adjustments with respect to Column F (Exclusions) and Column G (Pro Forma Amount) earlier in my testimony.

Q114. ARE THERE ANY PRO FORMA ADJUSTMENTS TO THIS CLASS?

A. Yes. The pro forma adjustments for the Depreciation Class are shown on Exhibit SBT-D, which also indicates the Company witnesses who sponsor those pro forma adjustments, and lists the pro forma adjustments by account. As indicated on Exhibit SBT-D, I sponsor one pro forma adjustment to the Depreciation Class. Exhibit SBT-12 describes the pro forma adjustments to the Depreciation Class in greater detail.

2. <u>Necessity</u>

Q115. WHAT KINDS OF ASSETS ARE OWNED BY ENTERGY SERVICES THAT RESULT IN THE DEPRECIATION THAT IS THEN CHARGED TO THE AFFILIATE COMPANIES?

A. In order to provide services to its affiliate companies, ESI must invest in certain depreciable assets to support its operations. These assets consist primarily of computer equipment, computer software systems, communications equipment, furniture, fixtures, leasehold improvements, and aircraft. However, a pro forma adjustment was made to remove Company aircraft costs from the Company's cost of service.

Q116. PLEASE DESCRIBE HOW THE DEPRECIATION OF ESI'S ASSETS IS CALCULATED.

A. The purpose of depreciation is to distribute the cost of an asset over its expected useful life. Total depreciation expense over the life of an asset is equal to the asset's cost (less any proceeds realized upon disposal). ESI uses the straight-line method to calculate the annual depreciation expense for its assets. Use of this depreciation method results in the cost of an asset being distributed evenly over the expected useful life of the asset. For example, an asset costing $1,000 that has an expected service life of 10 years would result in depreciation expense for this asset of $100 per year for a period of 10 years ($1,000 divided by 10 years = $100 per year or 10% a year). This method of calculating depreciation is appropriate under generally accepted accounting principles. The straight-line method is also the most commonly used and accepted depreciation method. According to an American Institute of Certified Public Accountants survey of 539 companies in 2011, 91% use the straight-line method of depreciation versus other methods, which are primarily accelerated methods of depreciation.[13] Exhibit SBT-25 is a summary of ESI's assets, including plant in service, accumulated depreciation, net plant, and the service life used to calculate depreciation.

Q117. PLEASE EXPLAIN WHY THE DEPRECIATION COSTS BILLED TO ETI ARE NECESSARY.

A. ESI requires certain assets to support the operations that provide services to its affiliates, including ETI. The depreciation cost is the result of

[13] American Institute of Certified Public Accountants (AICPA); Best Practices in Presentation and Disclosure, formerly Accounting Trends & Techniques, – 2012.

distributing the cost of these assets over their expected service lives to the recipients of the services provided by ESI. These assets enable ESI to provide the services required by its affiliates, including ETI, in the most efficient, effective, and reliable manner possible. Without such assets to support its operations, ESI could not provide the services that are required by its affiliates, including ETI. Depreciation of those assets is a necessary and proper component of the cost of owning and using the assets to provide services.

3. Reasonableness

Q118. HAVE YOU REVIEWED THE DEPRECIATION EXPENSE TO DETERMINE WHETHER THE CHARGES WERE REASONABLE?

A. Yes. The charges to ETI for the costs I sponsor are reasonable for the operation of ETI because the method of calculating depreciation (straight-line method) is appropriate under generally accepted accounting principles and is the most common method used. In addition, the price charged by ESI to ETI for this item represents the actual cost of this item.

Q119. WHAT OBJECTIVE SOURCES SUPPORT YOUR OPINION THAT THE DEPRECIATION COSTS BILLED BY ENTERGY SERVICES TO ETI ARE REASONABLE?

A. Exhibit SBT-26 is a benchmarking study prepared under my supervision that compares the dollar amount of assets per employee for ESI to the dollar amount of assets per employee for other PUHCA 2005 service companies. This measure, cost of assets per employee, is appropriate because employees drive the need for assets in service companies. Because the number of employees would be the primary determinant of the level of the assets that would be required, assets per employee is a valid measure. Exhibit SBT-26 compares the service company property per employee of ESI to the service company property per employee of seven other PUHCA 2005 service companies with at least $100 million of service company property as of December 31, 2012. This exhibit supports the conclusion that ESI's cost of assets per employee, while somewhat higher than the average, still fall within a reasonable range compared to that of the other PUHCA 2005 service companies. This comparison is based on service company headcount information contained in the respective corporate Forms 10-K and service company property information contained in each service company's FERC Form 60 Annual Report for the period ending December 31, 2012.

Q120. DID YOU INCLUDE ANY ADJUSTMENT TO THE DATA IN PERFORMING THE BENCHMARKING COMPARISON?

A. Yes. An adjustment was necessary to ensure comparability between ESI's depreciation levels and that of the other service companies. In particular, the service company property included in the benchmarking study excludes the "Transportation Equipment" category. Beginning with the FERC Form 60 Annual Report for the period ending December 31, 2008, the service company property category "Aircraft and Airport Equipment" was eliminated and included in "Transportation Equipment." A pro forma adjustment was made (AJ21A) to remove Company aircraft costs from the Company's cost of service. Therefore, to be consistent with the costs included in this case, the Transportation Equipment was removed from the total Service Company Property for all companies before the benchmarking study was completed. Because the benchmarking study supports the reasonableness of the level of assets being depreciated, and the procedures used to depreciate the assets are appropriate and consistent with well accepted accounting practices, the ultimate level of depreciation is likewise reasonable.

With the exception of depreciation on aircraft, ESI distributes the costs associated with the depreciation and amortization of ESI assets based on the labor cost billed to each affiliate. Distributing ESI's depreciation and amortization costs in this manner is an appropriate allocation of these costs because ESI employee labor is a reasonable measure of the level of services provided by ESI employees to affiliates, and employees and the services they provide drive the need for the assets utilized by ESI in its operations. Depreciation on aircraft is included as a component of total flight costs of ESI aircraft. Flight costs are charged to specific PCs based on the PC(s) associated with the ridership and purpose of a particular flight. However, as noted above, a pro forma adjustment was made to remove Company aircraft costs from the Company's cost of service.

4. <u>How Costs are Charged</u>

Q121. DO THE DEPRECIATION COSTS CHARGED BY ENTERGY SERVICES TO ETI UNDER THIS CLASS REASONABLY APPROXIMATE THE COSTS OF THOSE ITEMS?

A. Yes. The depreciation costs charged are based on the actual costs of the assets supporting ESI's operations and do not include any profit or markup.

Q122. IS THE PRICE CHARGED TO ETI FOR DEPRECIATION NO HIGHER THAN THE PRICE CHARGED TO OTHER AFFILIATES?

A. Yes. The price charged to ETI is no higher than the price charged by ESI to the other affiliates for depreciation on a per unit basis. With the exception of depreciation on aircraft, ESI depreciation expense is loaded onto each ESI labor dollar, and then billed out to affiliates. The depreciation loader is assigned the same PC as labor, so that it properly follows the same billing distribution as the labor dollars on which it is based. As explained in my testimony, each PC is assigned one billing method that will most appropriately allocate the charges to the companies receiving the services based on cost causation principles. Thus, depreciation cost is billed to each affiliate at the same rate for each dollar of labor charged, ensuring that costs are equitably distributed to each affiliate.

Q123. HOW ARE THE COSTS OF THIS CLASS CAPTURED AND BILLED TO ETI?

A. With the exception of depreciation on aircraft, the cost associated with this class is initially captured in Project Code F5PCZUDEPX, Depreciation and Amortization, and then these costs are distributed directly to ESI PCs based on the labor charged to the project codes. The receiving PCs then bill the depreciation costs (along with all other costs charged to the PC) to ESI's affiliates based on the assigned billing method for each project. During the test year, projects receiving depreciation costs billed $2,952,022 Total ETI Adjusted, which includes pro forma adjustments, to ETI. Exhibit SBT-B shows the costs included in this class by project code.

Q124. WHAT BILLING METHOD IS USED TO ALLOCATE THIS EXPENSE ITEM TO THE VARIOUS ENTITIES THAT RECEIVE SERVICES FROM ENTERGY SERVICES?

A. As noted, with the exception of depreciation on aircraft, ESI assigned depreciation costs to projects based on labor charged to projects and then billed these costs to affiliates based on the billing method assigned to each project. The use of assets required to support ESI employee service functions results in the depreciation and amortization cost. Labor charged to projects is an appropriate allocation for this cost because ESI employee labor is a reasonable measure of the level of services provided by ESI employees to affiliates. This process distributes the depreciation and amortization of assets necessary for the ESI employees to provide services to its affiliates in a manner consistent with the distribution of ESI labor to the affiliates that receive services.

C. Service Company Recipient Offsets (also referred to as Shared Services Loader Offsets)

1. Description of Class

Q125. PLEASE BRIEFLY DESCRIBE THIS CLASS OF AFFILIATE COSTS.

A. This class represents the corresponding credit to Service Company Recipient Allocation transactions. As discussed earlier in my testimony, the Service Company Recipient Allocation is the mechanism by which the costs of services provided by ESI employees to operate ESI that are initially billed to ESI through the PC billing process are distributed to ESI's affiliates in a second-tier allocation. ESI records the costs associated with ESI services received in a "clearing account" on its balance sheet. These costs reside temporarily in this clearing account until they are distributed to affiliates that are using the services of ESI employees. There are two components of the Service Company Recipient Allocation process: the recording of costs in the clearing account during the PC billing process; and removal from or credit to the clearing account during the second-tier allocation process. Because the costs are distributed to all affiliates based on the labor billings of ESI employees, the allocated costs are reflected in the other affiliate classes. The loader offset, which is charged to a balance sheet clearing account, is reflected in the Service Company Recipient Offsets Class. Because the loader offset is charged to a balance sheet account at ESI, loader offset amounts are not included in the Total ETI Adjusted amount, as shown on my Exhibits SBT-A, SBT-B, and SBT-C.

D. Other Expenses Class

1. Description of Class

Q126. PLEASE DESCRIBE THIS CLASS OF AFFILIATE COSTS.

A. This class reflects $(1,058,055) of costs resulting from certain accounting adjustments. It primarily includes costs related to certain employee benefits, incentive compensation adjustments, the credit from the 5% upcharge to the non-regulated affiliates, and other miscellaneous costs that are not associated with any other specific affiliate class.

Q127. PLEASE DESCRIBE THE ADJUSTMENTS THAT RESULTED IN THE PAYROLL-RELATED COSTS INCLUDED IN THIS CLASS.

A. Certain payroll-related adjustments, which resulted in the payroll-related costs in this class, are primarily the result of the use of standard estimated rates throughout the year, which differ from actual recorded charges at the end of the year. The costs resulting from the incentive compensation adjustments and employee benefits account for a credit of approximately $290,000. Company witness Raeder discusses the reasonableness of various types of payroll-related costs, including employee benefits, teamsharing, and other incentive compensation and payroll taxes. I address the residual amount of these payroll-related costs that have not been included in other affiliate classes.

Q128. BESIDES THESE PAYROLL-RELATED COSTS, WHAT OTHER COSTS ARE INCLUDED IN THE OTHER EXPENSES CLASS?

A. Also included in the Other Expenses Class is a credit of approximately $763,000 related to the 5% upcharge to the non-regulated companies.

Q129. WHAT PERCENTAGES OF THE TOTAL ETI ADJUSTED FOR THIS CLASS WERE DIRECT BILLED AND ALLOCATED TO ETI?

A. As shown on Exhibit SBT-A, SBT-B, and SBT-C, the Total ETI Adjusted amount for this class of services is $(1,058,055). Of this amount, ESI directly billed the $763,000 credit described above and allocated the payroll-related costs to ETI. The following table summarizes this information for the Other Expenses Class. I described the column names previously in the Depreciation Class section of my testimony.

		Total ETI Adjusted		
Class	Total Billings	Amount	% Direct	% Allocated
Other Expenses	$108,399,283	$(1,058,055)	96%	4%

Q130. PLEASE DESCRIBE THE EXHIBITS THAT SUPPORT THE INFORMATION INCLUDED IN THE TABLE ABOVE.

A. Exhibits SBT-A through SBT-C support the information for this class in the same manner as I discussed earlier in my testimony. For each exhibit, the amounts in the columns represent the same information as described above with regard to my Depreciation Class.

Q131. ARE THERE ANY PRO FORMA ADJUSTMENTS TO THIS CLASS?

A. Yes. The pro forma adjustments for the Other Expenses Class are shown on Exhibit SBT-D, which also indicates the Company witnesses who sponsor those pro forma adjustments. As indicated on Exhibit SBT-D, there were eighteen pro forma adjustments made to the Other Expenses Class. Exhibit SBT-12 describes the pro forma adjustments to this Class in greater detail.

Q132. WHAT ARE THE MAJOR COST COMPONENTS OF THE CHARGES FOR THIS CLASS?

A. The major cost components for charges from ESI to ETI are as follows:

Cost Component	Dollars	% of Total
Payroll and Employee Costs	**$(316,331)**	**30%**
Outside Services	**$14,409**	**-1%**
Office and Employee Expenses	**$(3,493)**	**0%**
Other	**$(752,639)**	**71%**
TOTAL	**$(1,058,055)**	**100%**

Q133. WHAT IS THE IMPORTANCE OF THESE COST CATEGORIES?

A. The foregoing table is common to most affiliate witnesses in this case. I directly sponsor the costs shown in this table because they comprise the Total ETI Adjusted amount for the Other Expenses Class. This breakout of costs provides an additional view of the components of the costs in this class. For example, the table demonstrates that 30% of the costs are for compensation, employee benefits, and other labor-related expenses ("Payroll and Employee Costs"). These costs are the result of certain adjustments, which I discussed earlier in this section. Company witness Raeder discusses overall payroll and benefits-related structure and practices.

2. Necessity

Q134. PLEASE EXPLAIN WHY THE ADJUSTMENTS THAT RESULTED IN THE COSTS BILLED TO ETI UNDER THE OTHER EXPENSES CLASS ARE NECESSARY.

A. As explained above, the adjustments resulting in the payroll-related costs included in the Other Expenses Class are necessary to reflect costs associated with reasonable and necessary compensation and benefit programs that Company witness Raeder discusses in her direct testimony. The remaining costs in this class were necessary to properly reflect accounting entries in the Company's books in accordance with generally accepted accounting standards.

3. Reasonableness

Q135. HAVE YOU REVIEWED THE COSTS IN THE OTHER EXPENSES CLASS TO DETERMINE WHETHER THE ADJUSTMENTS WERE REASONABLE?

A. Yes. The adjustments that result in the payroll-related costs in the Other Expenses Class are reasonable because they were made in accordance with generally accepted accounting standards to reflect timing differences associated with book entries. There is no duplication or over-recovery of actual costs. The reasonableness of the compensation and benefit programs associated with these payroll-related costs are discussed by Company witness Raeder. As stated, the remaining adjustments are reasonable (and necessary) to reflect proper and accepted accounting practices with regard to the Company's books.

4. How Costs are Charged

Q136. DO THE COSTS CHARGED BY ESI TO ETI UNDER THE OTHER EXPENSES CLASS REASONABLY APPROXIMATE THE COSTS OF THOSE ITEMS?

A. Yes, they do. The costs charged under the Other Expenses Class, which are the result of certain adjustments, are based on actual costs and do not include any profit or markup.

Q137. IS THE PRICE CHARGED TO ETI FOR ADJUSTMENTS CHARGED UNDER THIS CLASS NO HIGHER THAN THE PRICE CHARGED TO OTHER AFFILIATES?

A. Yes. The adjustments that resulted in the costs in this class ensure that the total costs charged to ETI are no higher than the price charged by ESI to the other affiliates for the costs charged under the Other Expenses Class. The adjustments that resulted in the payroll-related costs in this class are part of a true-up process to adjust payroll-related account balances for the use of standard estimated rates during the year. The account balance true-ups follow the same billing distribution as the original payroll loaders with the same PCs used for labor costs. As I explained earlier in my testimony, each PC is assigned one billing method that will most appropriately allocate the charges to the companies receiving the services based on cost causation principles. This basis of cost allocation ensures that the price charged to ETI is no higher than the price charged to other Entergy affiliates.

X. SPONSORED AFFILIATE PRO FORMA ADJUSTMENTS

Q138. DO YOU SPONSOR ANY OF THE PRO FORMA ADJUSTMENTS TO THE TEST YEAR INCLUDED IN EXHIBIT SBT-12?

A. Yes. Exhibit SBT-12 identifies the pro forma adjustments that I sponsor.

Q139. PLEASE DISCUSS THE PRO FORMA ADJUSTMENTS TO THE TEST YEAR COSTS THAT YOU SPONSOR.

A. The adjustments to the test year affiliate costs that I sponsor are listed below.

- AJ21G – Correct Capital Project Codes
- AJ21J – PwC Changes in Billing Methods

These test year pro forma adjustments are described in greater detail in Exhibit SBT-12 and Exhibit SBT-D, which includes details of the pro forma adjustments by account.

Q140. ARE THERE ANY ADDITIONAL AFFILIATE PRO FORMA ADJUSTMENTS TO THE TEST YEAR THAT ARE SPONSORED BY SOMEONE OTHER THAN YOU?

A. Yes. Please refer to Exhibit SBT-12 for a listing and description of the affiliate pro forma adjustments to the test year sponsored by other Company witnesses.

XI. <u>BENCHMARKING OF ESI COSTS</u>

Q141. ARE ESI'S COSTS OF PROVIDING ITS SUPPORT SERVICES COMPARABLE TO OTHER SERVICE COMPANIES?

A. ESI's costs are generally in line with those of peer service companies.

Q142. HAVE YOU DONE ANY TYPE OF ANALYSIS TO REACH THE CONCLUSION THAT ESI'S COSTS ARE GENERALLY IN LINE WITH THOSE OF PEER SERVICE COMPANIES?

A. Yes, I conducted a benchmarking analysis comparing ESI's costs with the costs of peer service companies using publicly available information in the December 31, 2012 FERC Form 60 for a peer group of service companies and the December 31, 2012 Form 10-K for the related holding companies.

Q143. PLEASE DESCRIBE HOW YOU DEVELOPED YOUR LIST OF PEER GROUP SERVICE COMPANIES.

A. I identified the list of service companies that submitted a December 31, 2012 Form 60 to the FERC. The FERC Form 60 is required to be filed by all utility service companies serving multiple jurisdictions. For 2012, 34 service companies, including ESI, submitted the FERC Form 60. Several of these companies have multiple service companies that provide specific services that are not comparable to ESI, including those that provide nuclear generation operations. My analysis excluded those service companies that provide specific services that are not comparable to ESI. In order to ensure comparability, my analysis also excluded service companies with a non-U.S. based parent company and companies with fewer than 1 million customers. I also excluded those companies whose service company headcount information is not publicly available in the Form 10-K or whose FERC Form 60 does not include service company property in excess of $100,000,000. Lastly, I excluded Exelon because its service company O&M expense, a significant metric in the benchmarking analysis, does not include an entire year of results for the Constellation shared service entity following Exelon's March 2012 merger with Constellation. The resulting 2012 ESI peer group used in my benchmarking analysis includes AEP, Ameren, FirstEnergy, PEPCO, PPL, and Southern Company. A high level overview of the peer group selection process is included in Exhibit SBT-27A.

Q144. PLEASE DESCRIBE THE FERC FORM 60 DATA AND THE FORM 10-K DATA THAT WAS USED IN YOUR BENCHMARKING ANALYSIS.

A. My benchmarking analysis captured service company O&M expense as a percentage of total company O&M, service company O&M expense as a percentage of total company revenue, service company O&M expense as a percentage of total company assets, and service company O&M expense per service company employee. The service company O&M expense is publicly available in the FERC Form 60. The total company O&M, total company revenue, total company assets, and service company headcount are publicly available in the Form 10-K. Cost comparisons were calculated on a per unit basis rather than a total cost basis due to differing levels of granularity and aggregation in the total costs.

Q145. WHAT WERE THE RESULTS OF YOUR BENCHMARKING ANALYSIS FOR EACH OF THE COST COMPARISONS LISTED ABOVE?

A. As shown in Exhibit SBT-27B, ESI O&M expense represents 21.20% of total company O&M expense, which is comparable to the peer group average of 20.89%. As shown in Exhibit SBT-27C, ESI O&M expense represents 8.70% of total company revenue, which is comparable to the peer group average of 8.30%. As shown in Exhibit SBT-27D, ESI O&M expense represents 1.61% of total company assets, which is only slightly above the peer group average of 1.45%. Lastly, as shown in Exhibit SBT-27E, ESI O&M expense is $229,231 per ESI employee, which is marginally higher than the peer group average of $206,750 per service company employee.

Q146. HOW SHOULD COMPARATIVE PERFORMANCE RELATIVE TO A PEER GROUP, AS CALCULATED THROUGH BENCHMARKING, BE VIEWED?

A. In general, service company costs that align with a peer group average provide an indication that a company is providing services in a cost effective manner.

Q147. WHAT DO YOU CONCLUDE FROM THE BENCHMARKING ANALYSIS THAT YOU PERFORMED?

A. As a result of my benchmarking analysis, I have concluded that ESI's costs are generally in line with those of peer service companies, which supports the conclusion that ESI costs charged to ETI are reasonable.

XII. CONCLUSION

Q148. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, at this time.

This page has been intentionally left blank.