the appropriate one to use for purposes of determining the River Bend decommissioning revenue requirement.

C. Fund Administrative Costs

Q27. HOW DID THE COMPANY DEVELOP ADMINISTRATIVE FEES FOR PURPOSES OF CALCULATING THE REVENUE REQUIREMENT IN SCHEDULE M-2?

A. The administrative fees used in Schedule M-2 are based on the current trustee and manager fee schedules in place for the River Bend decommissioning funds included as Attachment 3 to Schedule M-1.

Bank of New York Mellon is the trustee for all nuclear decommissioning trust assets in the Entergy system. The trustee fees are calculated quarterly at the rate of one basis point (0.01%) applied to the aggregate market value of all decommissioning trust assets in the Entergy system. Once calculated, the quarterly fees are allocated proportionately among all trust funds based on market value. There are certain annual trust administration fees that are charged directly to each individual trust account without regard to market value. Investment management fees are also calculated on a total Entergy system basis using a declining fee structure. The total management fee is allocated pro rata (based on market value of investments) to all investment accounts that use the same investment manager.

Because the revenue requirement calculation is specific to ETI's retail jurisdiction, the Company modified the current declining fee structures for investment manager fees. This was done so that the manager fees used to calculate the revenue requirement in Schedule M-2 recognize the benefits achieved with the declining fee structures quicker than if the actual breakpoints were used. The breakpoints can be thought of as the point, or asset market value, where the fee declines, or breaks, down to the next lowest level. Consider the hypothetical example whereby a 1.0% fee applicable to a market value range of $0 to $50 million reduces down to 0.75% when the market value is between $50 million and $100 million. The breakpoint is $50 million and the fee applicable to the assets valued above $50 million would be 0.75%. The fee applicable to the assets valued between $0 and $50 million would be 1.0%.

For the River Bend fee calculation, the equity manager fees for the TQ Fund were calculated by first dividing the actual breakpoints by five, because five Entergy funds use that equity manager. Similar calculations were made for the fixed income manager fees in order to recognize the benefits of the declining fee schedules quicker. The breakpoints can be seen in the modified fee structure described above and included as Attachment 7 to Schedule M-1. The asset based trustee fee for the River Bend Funds is a flat one basis point (0.01%). Additionally, there are specific administrative trustee fees such as tax preparation fees and

performance reporting fees. The administrative fees can be seen on Attachment 7 to Schedule M-1.

III. COMPLIANCE WITH INVESTMENT GUIDELINES

Q28. YOU HAVE DISCUSSED TRUSTEE AND INVESTMENT MANAGER FEES ABOVE. DO THE TOTAL TRUSTEE AND INVESTMENT MANAGER FEES PAID ON AN ANNUAL BASIS EXCEED 0.7% OF THE ENTIRE PORTFOLIO'S AVERAGE ANNUAL BALANCE?

A. No, they do not.

Q29. IS ANY MORE THAN 5.0% OF THE SECURITIES IN THE RIVER BEND DECOMMISSIONING FUND ISSUED BY ONE ENTITY?

A. No, no single entity's securities constitute more than 5.0% of the fund.

Q30. DOES THE RIVER BEND DECOMMISSIONING TRUST HOLD AT LEAST 20 DIFFERENT ISSUES OF SECURITIES?

A. Yes, it does.

Q31. HAS THE RIVER BEND DECOMMISSIONING TRUST BEEN STRUCTURED FOR OPTIMUM TAX EFFICIENCY?

A. Yes. As I have noted previously, all of the funds are considered "qualified" under the U.S. tax laws.

Q32. DOES THE RIVER BEND DECOMMISSIONING TRUST INCLUDE ANY PROHIBITED DERIVATIVE SECURITIES AS DEFINED IN THE PUC'S SUBSTANTIVE RULES?

A. No.

Q33. DOES THE RIVER BEND DECOMMISSIONING TRUST BORROW TO PURCHASE SECURITIES ON MARGIN?

A. No.

Q34. DOES THE RIVER BEND DECOMMISSIONING FUND COMPLY WITH EQUITY LIMITS SPECIFIED IN THE SUBSTANTIVE RULES?

A. As I mentioned previously, the current equity component of the fund exceeds the 60% equity limit (at 61%) due to market fluctuations. Future contributions to the fund will be invested in debt securities as is necessary to reduce the allocation of the equity investments below the cap. The Fund will be closely monitored and, if necessary, rebalanced to maintain compliance.

Q35. DOES THE RIVER BEND DECOMMISSIONING TRUST INVEST IN ANY ENTERGY SECURITIES?

A. No.

Q36. DOES THE RIVER BEND DECOMMISSIONING TRUST INVEST IN ANY DEBT SECURITIES THAT HAVE A BOND RATING BELOW INVESTMENT GRADE?

A. No.

Q37. DOES AT LEAST 70% OF THE AGGREGATE MARKET VALUE OF THE RIVER BEND DECOMMISSIONING TRUST EQUITIES HAVE A QUALITY RANKING FROM A MAJOR RATING SERVICE?

A. Yes, they do.

Q38. DOES THE OVERALL EQUITY PORTFOLIO OF THE RIVER BEND DECOMMISSIONING TRUST HAVE A WEIGHTED AVERAGE QUALITY RATING EQUIVALENT TO THE COMPOSITE RATING OF THE STANDARD AND POOR'S 500 INDEX ASSUMING EQUAL RATING OF EACH RANKED SECURITY IN THE INDEX?

A. Yes.

Q39. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, at this time.

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RIVER BEND DECOMMISSIONING FUNDS - PUCT
ESTIMATED PORTFOLIO LIQUIDATION VALUES
DECEMBER 31, 2013

	River Bend Qualified PUCT
	(In Thousands)
March 31, 2013 Liquidation Values (A)	$ 136,305
April - December Planned Contributions:	
April	94
May	94
June	94
July	94
August	94
September	94
October	94
November	94
December	94
Total Remaining 2013 contributions	$ 845
Subtotal	$ 137,149
Estimated Net Earnings from April 1, 2013 through December 31, 2013: (B)	5,425
Estimated Net Fees: (B)	($69)
Estimated December 31, 2013 Liquidation Value	$ 142,505

(A) See page 2 of WP-3/M-2 for calculation of estimated March 31, 2013 liquidation values.
(B) See WP-4/M-2 for calculations of estimated net earnings and estimated net fees.

Amounts may not add or agree with other workpapers due to rounding.

RIVER BEND DECOMMISSIONING FUNDS - PUCT
ESTIMATED PORTFOLIO LIQUIDATION VALUES
MARCH 31, 2013

Description	River Bend Qualified PUCT
	(In Thousands)
Cash & Equivalents	$ 829
Treasuries	30,793
Taxable Bonds	17,349
Tax Exempt Municipal Bonds	6,370
Equity	86,903
Accrued Income	549
Market Value (2)	$ 142,793
Less: Estimated Accrued Taxes, and Fees (3)	(6,488)
Estimated March 31, 2013 Liquidation Value	$ 136,305

(1) All balances reflect actual assets held in the River Bend PUCT accounts at 3/31/13.
In Sept. 2012 the PUCT Non-Qualified funds were contributed to the Qualified trust.
(2) Trustee statements reflect taxes on accrued income and fees paid as of 3/31/13
and do not reflect accrued fees.
(3) See WP-4/M-2 for calculation of estimated taxes on income and unrealized gain or loss
at 3/31/13 along with estimated accrued fees, net of tax.

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

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DOCKET NO. 41791

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

DIRECT TESTIMONY

OF

REGINALD T. JACKSON

ON BEHALF OF

ENTERGY TEXAS, INC.

SEPTEMBER 2013

ENTERGY TEXAS, INC.
DIRECT TESTIMONY OF REGINALD T. JACKSON
2013 RATE CASE

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I. INTRODUCTION

A. Qualifications

Q1. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Reginald T. Jackson. My business address is 639 Loyola Avenue, New Orleans, Louisiana, 70113.

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

A. I am employed by Entergy Services, Inc. ("ESI") as the Director of Corporate Sourcing and Supply Chain Support for the Entergy Companies.[1] My job responsibilities are primarily focused on procuring goods and services for the Entergy Companies' corporate functions and providing business support to the overall Supply Chain Organization. The key activities of the Corporate Sourcing and Supply Chain Support key are described in more detail in section II of my testimony.

Q3. PLEASE BRIEFLY DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL QUALIFICATIONS.

A. I received a B.S. in Accounting from Xavier University in New Orleans, Louisiana and a MBA from Loyola University in New Orleans, Louisiana.

[1] I use the term "Entergy Companies" to mean Entergy Corporation and its subsidiaries, including Entergy Texas, Inc. ("ETI"), ESI, and the other Entergy Operating Companies ("EOCs"). Each of these subsidiaries is a separate legal entity. The six EOCs are: Entergy Arkansas, Inc. ("EAI"); ETI; Entergy Gulf States Louisiana, L.L.C. ("EGSL"); Entergy Louisiana, LLC ("ELL"); Entergy Mississippi, Inc. ("EMI"); and Entergy New Orleans, Inc. ("ENOI").

Additionally, I am a Certified Public Accountant, a Certified Internal Auditor, and a Certified Information Systems Auditor. I also participated in Entergy's Executive Training Program that was administered by the University of Pennsylvania's Wharton School of Business and the University of Maryland's Robert H. Smith School of Business. I have 24 years of professional/business experience at the Entergy Companies and in similar capacities with KPMG Accounting Firm. At ESI, I have held the following positions: Director of Corporate Sourcing and Supply Chain Support (present-2008), Manager of Legal Entity Management (2007-2002), Internal Audit Manager (2002-1997), and various supervisory/staff audit positions (1997-1991).

B. Purpose of Testimony

Q4. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. I am sponsoring the class of affiliate services known as Supply Chain (also known as Materials, Purchasing and Contracts) services and its associated costs. I demonstrate that this class of services and its associated costs are necessary and reasonable and that the prices charged for this service to ETI are no higher than the prices charged to other affiliates for the same or similar service and represent the actual cost of the services. As shown by Exhibit RTJ-1 attached hereto, this class supports the materials management and procurement functions and

is part of the Corporate Support family. I also sponsor certain capital additions related to the Supply Chain Organization.

Q5. DO YOU SPONSOR ANY EXHIBITS IN THIS FILING?

A. Yes. I sponsor the exhibits listed in the Table of Contents for this testimony.

C. Organization of Testimony

Q6. HOW IS THE REMAINDER OF YOUR TESTIMONY ORGANIZED?

A. In Section II.A, I describe the Supply Chain class of service and the necessity of those services during the test year (the 12 months ending March 31, 2013). In Section II.B, I discuss the test-year affiliate charges for Supply Chain services. In Section III, I discuss the reasonableness of the costs of the Supply Chain Class and the associated cost allocation methodology. In Section IV, I discuss Supply Chain capital additions for ETI since June 2011 and, in Section V, I conclude my testimony

II. DESCRIPTION OF SUPPLY CHAIN CLASS OF SERVICE AND NECESSITY OF SERVICES PROVIDED

A. Description and Necessity

Q7. WHAT IS MEANT BY THE TERM "SUPPLY CHAIN"?

A. Supply Chain services include all activities and processes to plan, specify and provide products and services to support company operations.

Supply Chain performs five major services: Procurement; Inventory Management; Repair, Testing and Disposal of Equipment and Materials; Supplier Diversity; and Business Support.

Q8. PLEASE DESCRIBE THE SERVICES PROVIDED BY THE SUPPLY CHAIN CLASS.

A. Supply Chain provides the following services:

- Procure goods and services through strategic and tactical supply networks at the lowest reasonable cost. This also includes the negotiation, award, and administration of purchase orders and contracts. During the test year, Supply Chain purchased $1.9 billion of materials and services, of which $173 million were for ETI directly.
- Manage and deliver material inventories to line crews. This includes maintaining optimal inventory levels while balancing internal customers' requirements.
- Repair/test meters and transformers. Test safety equipment and rubber goods.
- Dispose and sell scrap or surplus equipment and materials.
- Expand procurement and economic growth opportunities for diverse suppliers (*e.g.*, minority, women, HUBZone, veteran, and disabled veteran owned businesses). The Historically Underutilized Business Zones ("HUBZone") is a Small Business Act certification

that helps small businesses in urban and rural communities gain preferential access to federal procurement opportunities.

- The Supply Chain Support group provides administrative support to the Supply Chain Organization. This support primarily includes: managing process improvement projects (including the Six Sigma Program), maintaining Supply Chain's information technology systems, performing market analyses, executing test plans to ensure compliance with policies/regulations, monitoring key performance metrics, and developing the strategic plan. The Six Sigma Program is described in more detail in the Cost Control and Improvement Initiative Section of my testimony.

All Supply Chain activities are governed by the Entergy Companies' Procurement Policy (see Exhibit RTJ-2). This policy outlines all requirements, company-wide, as they relate to the acquisition of material and services

Q9. PLEASE DESCRIBE THE ENTERGY COMPANIES' PROCUREMENT POLICY ATTACHED AS EXHIBIT RTJ-2.

A. The Entergy Companies' Procurement Policy establishes the requirements for the procurement of all materials, goods and services for use by the Entergy Companies, except for those items specifically excluded from the policy (per Attachment II to the policy), or approved by the Vice President, Chief Supply Officer ("CSO"). Approval Authority for

Requisitions (the approval to expend funds) is governed by the Entergy Companies Approval Authority Policy (see Exhibit RTJ-3). The Procurement Policy as a whole applies to all of the Entergy Companies' employees, regardless of business unit, except where noted in the policy. The policy is designed to create a uniform, streamlined process for procurement that is more consistent, efficient, manageable, and verifiable than having different procurement practices among the various business units, thereby enabling ESI and the business units to control spending for materials, goods and services and conduct procurement in an economical manner.

Q10. PLEASE DESCRIBE THE SUPPLY CHAIN ORGANIZATION.

A. Supply Chain consists of the following departments, each reporting to the CSO: Generation Sourcing (excluding nuclear), T&D Sourcing, Corporate Sourcing, Supplier Diversity, Supply Chain Operations, and Supply Chain Support. This organizational structure provides the advantages of standardizing operating policies and processes, improving efficiencies, and allowing the implementation of procurement "best practices" Entergy-wide. Supply Chain services are not duplicated within ETI or any other ESI organization.

During the test year, Supply Chain had a total of 163 employees, consisting of 98 ESI employees, 14 ETI employees, and 51 employees of the other Entergy Operating Companies. The 98 ESI employees primarily

include management, Supply Chain Support, Sourcing, Supplier Diversity, and Investment Recovery specialists.

This organizational structure allows Supply Chain to provide greater levels of service to the Operating Companies, with fewer resources, leading to lower direct costs.

Q11. WHY ARE THE SUPPLY CHAIN SERVICES DESCRIBED ABOVE NECESSARY?

A. Generation Sourcing services are necessary to support fossil plant operations in order to serve the specialized need for component parts and services driven by the size, design and complexity of the Entergy Companies' fossil power plants. The procurement of these parts and services requires a group of individuals who are skilled and experienced in the business of obtaining such specialized components and services.

T&D Sourcing services enable ETI to receive transmission and distribution-related supplies in order to provide service to customers effectively, efficiently and reliably. The Supply Chain group procures materials and services including transformers, conductors, poles, substation equipment and appurtenances, aerial distribution materials, meters, distribution hardware, and construction and maintenance services in support of T&D.

The Corporate Sourcing function acquires goods and services that are used throughout the Entergy Companies in their day-to-day operations

as utility service companies. Examples include, but are not limited to, computers, telecommunication services, building maintenance and repairs, building renovations, mail services, software, and professional services. Additionally, this group leverages common goods and services to obtain the best price for all the affiliates. Therefore, ETI's prices for these goods and services are better when leveraged with the purchasing power of the other Entergy Companies.

The primary objective of Supplier Diversity is to expand procurement by the Entergy Companies of goods and services from diverse suppliers, which contributes to the area's overall economic development. Business development activities include pre-qualification of diverse suppliers; outreach, including participation in trade shows, seminars, and advertisements; general and specific vendor training and assistance; external agency interface; second-tier spend analysis; and review and issue resolution. This function also supports the Entergy Companies' pledge to advance business opportunities for small, small-disadvantaged, women-owned, veteran-owned, disabled veteran-owned and HUBZone-owned businesses through both direct and indirect procurement initiatives in accordance with Section 8(d) of the Small Business Act, U.S. Code of Federal Regulations (10 CFR 41) under Public Law 95-507, and in conjunction with an area-wide contract with the U.S. General Services Administration, Public Utilities Division (Contract No. GS00P-96-BSD-002).

The Supply Chain Operations group is responsible for the management and operation of the transformer repair shops, meter repairs, management of the four central material distribution warehouses, rubber goods testing and investment recovery for materials. This function is necessary as the capabilities it provides exist nowhere else within the Entergy Companies.

The Investment Recovery group, which is a department within Supply Chain Operations, is responsible for the disposition of the surplus, scrap, and obsolete material and equipment of Entergy Operations Inc., ESI, and the Entergy Operating Companies, including ETI. Examples of the items commonly sold by this group include vehicles, construction equipment, trailers, computers, scrap electrical wire, power plant parts and equipment, and obsolete inventory. All proceeds are credited directly back "above the line" to the operating company or service company that withdrew the material or equipment out of service. Having a single group responsible for asset sales for all operating companies provides economies of scale and leveraging.

The Supply Chain Support group provides administrative support to the Supply Chain Organization. This support primarily includes: managing process improvement projects including the Six Sigma Program, maintaining Supply Chain's information technology systems, performing market analyses, executing test plans to ensure compliance with policies/regulations, monitoring key performance metrics, and

developing the strategic plan. The Six Sigma Program is described in more detail in the Cost Control and Improvement Initiative Section of my testimony.

Q12. PLEASE DESCRIBE THE TYPES OF CHARGES IN THE SUPPLY CHAIN CLASS FROM OTHER ENTERGY OPERATING COMPANIES.

A. Charges from other Entergy Operating Companies fall into two categories: Loaned Labor and Material Transfers. Loaned Labor occurs when a Business Unit employee from one operating company does work for another operating company. The cost of the employee during that period is captured as Loaned Labor and charged directly to the benefiting Operating Company. Material Transfers occur when material in one Operating Company's inventory is transferred to another Operating Company for use. The movement of this material is captured as a Material Transfer transaction within the two Operating Companies' general ledgers.

B. Supply Chain Class Charges

Q13. WHAT IS THE NET REQUESTED AMOUNT FOR THE SUPPLY CHAIN CLASS OF SERVICES?

A. The following table summarizes this information for the Supply Chain Class. The table shows for each class the following information:

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

TABLE 1

		Total ETI Adjusted		
Class	**Total Billings**	**Amount**	**% Direct**	**% Allocated**
Supply Chain	**$19,677,863**	**$1,048,563**	**15%**	**85%**

Q14. PLEASE DESCRIBE THE EXHIBITS THAT SUPPORT THE INFORMATION INCLUDED IN TABLE 1.

A. Attached to my testimony are exhibits showing the calculation of the Total ETI Adjusted amount for the Supply Chain Class. In my Exhibit RTJ-A, the information is shown broken down by the departments comprising the class. My Exhibit RTJ-B shows the same information broken down by project code and the billing method assigned to each project code. My Exhibit RTJ-C shows the information by class, department and project code. For each exhibit, the amounts in the columns represent the following information:

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

In her testimony, Company witness Tumminello describes the calculations that take the dollars of support services in Column A to the Total ETI Adjusted Amount shown on Column H.

Q15. ARE THERE ANY PRO FORMA ADJUSTMENTS TO THIS CLASS?

A. Yes. The pro forma adjustments for the Supply Chain Class are shown on Exhibit RTJ-D, which also indicates the Company witnesses who sponsor those pro forma adjustments.

Q16. WHAT ARE THE MAJOR COST COMPONENTS OF THE CHARGES FOR THE SUPPLY CHAIN CLASS?

A. As shown on Exhibit RTJ-A, the Total ETI Adjusted billings for the Supply Chain Class during the test year were $1,048,563. This includes charges from ESI, Entergy Arkansas, Inc. ("EAI") and Entergy Louisiana, LLC ("ELL"). The major cost components of those costs are as follows:

Table 2

Supply Chain Affiliate Cost Component	Cost $	% of Total
Payroll and Employee Costs	862,572	82%
Service Company Recipient	80,546	8%
Office and Employee Expenses	45,773	4%
Outside Services	45,708	4%
Other	13,964	1%
Total	1,048,563	*100%
*Does not sum due to rounding.		

Q17. WHAT IS THE SIGNIFICANCE OF THESE COST CATEGORIES?

A. The four major components of the Supply Chain Class are: (1) Payroll and Employee Costs; (2) Service Company Recipient; (3) Office and

Employee Expenses; and (4) Outside Services. As Table 2 shows, 82% of the costs are for payroll and employee benefits. Company witness Jennifer A. Raeder discusses the reasonableness and necessity of these costs in her direct testimony. In addition, 8% of the costs are for Service Company Recipient costs, which represent costs that ESI provides to itself, which are then spread to all affiliates that receive ESI services. Company witness Tumminello explains this shared services process. Another 4% of the costs are in the Office and Employee Expenses category, which includes expenses such as maintaining workspaces, office supplies, education, training and travel. Company witness Thomas C. Plauché addresses processes for controlling these types of costs. Finally, 4% of the costs are in the Outside Services category, which includes two contractors that were hired to augment the staff in the Investment Recovery and Meter Repair & Disposal departments.

Q18. ON WHAT BASIS ARE COSTS IN THE CLASS OF SERVICE YOU ARE SPONSORING ALLOCATED?

A. Each class is made up of one or more project codes. As Company witness Tumminello explains, only one billing method is assigned to each project code. Any organization performing tasks within a specific project code will bill to that project code, but the billing method for that project code remains the same. A billing method is selected based on cost causation. This assures that the price billed to ETI for the services is no

higher than the amount charged other affiliates for the same or similar services and represents the actual costs of the service.

Q19. DO YOU DISCUSS THE BILLING METHODS USED TO CHARGE ETI FOR COSTS ASSOCIATED WITH THE CLASS OF SERVICE YOU ARE SPONSORING?

A. Yes, in Section III.B. below.

III. REASONABLENESS OF COSTS

Q20. ARE THE COSTS OF THE SUPPLY CHAIN CLASS OF SERVICE REASONABLE?

A. Yes. As compared to the 2011 rate case Docket No. 39896, total Supply Chain procurement spend volumes have increased ($1.33 billion in the 2011 case versus $1.9 billion in the current test year). This increased volume has nevertheless been supported with a reduction in staff (175 full-time equivalent staff in the 2011 rate case versus 163 in this test year) due to improved processes and systems.

It should be noted that centralization of this function, on a system-wide basis, provides greater leverage and buying power in the procurement of materials and services than could be achieved by a stand-alone company. Consolidation of procurement activities provides economies of scale by avoiding duplication of efforts among affiliate companies and lower costs through leveraged buying. The result is lower

materials and services costs to each operating company, including ETI. Supply Chain provides greater standardization across all of the Entergy Operating Companies. This standardization makes possible a smoother day-to-day operation as well as rapid response to major storms or emergencies.

The costs of these services are reasonable considering both the volume and quality of service afforded to ETI. Experienced, well-trained supply management professionals are on staff. Company witness Raeder addresses the reasonableness of the Entergy Companies' compensation program. The Supply Chain Organization implements supply strategies to reduce the cost of the materials and services, while maintaining or improving the level of service to the transmission and distribution, fossil and corporate groups.

Q21. WHAT OTHER EVIDENCE DO YOU HAVE THAT SHOWS THE REASONABLENESS OF THE SUPPLY CHAIN CLASS OF SERVICES?

A. McKinsey & Company, a globally recognized executive management consulting firm, conducted the Global Purchasing Excellence ("GPE") assessment for the Supply Chain Organization measuring the "purchasing health" of our procurement organization. The assessment was performed in 2010 and is attached in Confidential Exhibit RTJ-4. The GPE feedback suggests that the Supply Chain Organization has stronger purchasing practices than most utilities, and is on the verge of becoming 1st quartile

across industries. In the assessment, the Supply Chain Organization demonstrated clear strengths in three areas: Strategic Alignment and Posture, Organizational Structure, and Mindsets & Aspirations.

PwC, a globally recognized audit, tax and consulting firm, conducted a benchmarking study of leading electric and gas utilities' material planning and distribution programs. The study focused on the following major activities: material planning and analysis, material storage and distribution to consumer work activities, and Transportation of material between locations. Overall, the Entergy Companies scored well compared to the other utilities that participated in the study. The Entergy Companies rated above average in 8 of the 12 categories analyzed. The assessment was performed in 2013 and is attached in Confidential Exhibit RTJ-5.

Q22. IS THERE ANY MORE GENERAL BENCHMARKING SUPPORT IN THE COMPANY'S FILING?

A. Yes. Although it does not apply explicitly to my class, Company witnesses Michelle P. Bourg and Tumminello address benchmarking studies that apply to ETI's costs. Ms. Bourg addresses benchmarking applicable to ETI total company non-production O&M costs, and Ms. Tumminello addresses benchmarking that applies at the service company (ESI) level.

Q23. IS THERE OTHER EVIDENCE THAT SPEAKS TO THE EFFECTIVENESS OF THE OVERALL SUPPLY CHAIN CLASS OF SERVICE?

A. Yes. In addition to the benefits the Supply Chain Organization provides that have been detailed above, this organization also tracks and reports productivity savings and cost avoidance. Productivity is defined as dollar savings delivered to the operating companies through procurement initiated supplier price reductions and through investment recovery disposal activities. Cost avoidance refers to incidents where expenses would otherwise be paid on the part of the Entergy Companies are avoided as a result of Supply Chain involvement. For example, equipment repairs are classified as cost avoidance. As shown in Exhibit RTJ-6, the Supply Chain Organization produced $21 million in productivity savings and $16.4 million of cost avoidance system-wide for the Entergy Operating Companies during 2012. The direct impact to ETI was $2.5 million in productivity savings and $2.3 million in cost avoidance.

A. Trend Analysis

1. Budget Planning

Q24. DOES SUPPLY CHAIN HAVE IN PLACE A BUDGETING PROCESS TO CONTROL COSTS?

A. Yes. Budgets are created during the May to September timeframe each year for the upcoming calendar year. Costs are determined through both

trend analysis of the previous year's activities, as well as direct input from the Supply Chain Lead Team. This data is analyzed against identified budget targets provided by the Entergy Performance Management Group. The budget is then reconciled to the targets. These reconciled numbers are loaded into the Entergy Companies Budget System.

Q25. IS COMPLIANCE WITH THE BUDGET MONITORED?

A. Yes. Supply Chain's Functional Coordinator monitors the budget as an ongoing process, through the use of Entergy Companies' Financial Reporting systems, including a monthly Management Reporting Package and the Present Estimate Reporting Process. Variances are brought to the attention of Supply Chain Management with responsibility over the area(s) affected, who then addresses the variance. Overall Budget is reviewed with the Supply Chain Lead Team on a monthly basis. The Overall Budget is reviewed with the Entergy Companies' Senior Management on a quarterly basis. Additionally, the Overall Budget and estimates of future spending are reviewed monthly with the Entergy Financial Organization, and month-to-month estimates are entered into the Entergy Companies' financial system.

Q26. ARE SUPPLY CHAIN EMPLOYEES HELD ACCOUNTABLE FOR DEVIATIONS FROM THE BUDGET?

A. Yes. Employee performance evaluations are linked to meeting annual budget targets for capital and O&M spending.

2. Cost Trends

Q27. WHAT WERE THE ACTUAL ETI CHARGES FOR SUPPLY CHAIN SERVICES FOR THE LAST THREE CALENDAR YEARS AND THE TEST YEAR?

A. The following table shows the total O&M charges billed to ETI for services provided by the Supply Chain Organization for the years 2010-2012 and the Test Year. These charges have been adjusted to remove the MISO and ITC-related affiliate costs that the Company is removing from the requested cost of service (as explained by Company witness Considine), as well as the nuclear and gas department codes (as explained by Company witness Tumminello).

Class	2010	2011	2012	Test Year
SUPPLY CHAIN	$ 1,613,374	$ 1,229,843	$1,242,590	$1,071,863

The decrease from 2010 to the test year was attributable to labor shifting from O&M to Balance Sheet due to major storms in the Entergy Companies' service area.

During major storms, Supply Chain mobilizes into storm job roles and directs labor away from normal operating business towards specific storm activities in the affected area. Examples include resources such as Supply Chain Procurement and Contract Sourcing Specialists. Hurricane Isaac and the 2012 Arkansas ice storm shifted O&M labor from normal project codes that allocate portions to ETI to project codes that direct bill other Entergy Operating Companies. The result is lower than normal O&M being billed to ETI. No major storms occurred in the Entergy Companies service area during 2010.

3. Staffing Trends

Q28. PLEASE DESCRIBE THE NUMBER OF ESI PERSONNEL WHO PERFORMED SERVICES FOR THE SUPPLY CHAIN CLASS IN THE YEARS 2010-2012 AND THE TEST YEAR.

A. The number of ESI personnel performing services in the Supply Chain Class has decreased, as detailed in the following chart:

Year	Employees
2010	103
2011	102
2012	100
Test Year	98

The 2010, 2011 and 2012 figures are year-end (December 31) headcounts. The Test Year figure is the headcount as of March 31, 2013.

This headcount has steadily decreased since 2010. The number of ESI employees allows Supply Chain to provide an effective and efficient level of service to its internal customers.

4. Cost Control and Improvement Initiatives

Q29. SEPARATE FROM THE BUDGETING PROCESS, DOES SUPPLY CHAIN UNDERTAKE OTHER INITIATIVES TO CONTROL COSTS OR IMPROVE ITS SERVICES?

A. Yes. Through the ECI/Six Sigma process, Supply Chain continues to look for opportunities to reduce costs and improve the delivery and quality of its services. Under the current organization, the Project Management Office has responsibility to work with the balance of Supply Chain personnel to identify these opportunities and develop and implement plans to realize these improvements. In addition, Supply Chain continues to pursue its "e-Strategy," described below, to improve its services and decrease its costs.

Q30. PLEASE DESCRIBE THE SIX SIGMA PROGRAM.

A. Six Sigma emphasizes setting extremely high objectives, collecting data, and analyzing results to a fine degree as a way to reduce defects in the delivery of products and services. The philosophy behind Six Sigma is that if you measure how many defects there are in a process, you can figure out how to systematically eliminate them and get as close to optimal performance as possible. In order for a company to achieve Six Sigma, it

cannot produce more than 3.4 defects per million opportunities, where an opportunity is defined as a chance for nonconformance.

There are two Six Sigma processes: Six Sigma DMAIC and Six Sigma DFSS, each term derived from the major steps in the process. Six Sigma DMAIC is a process that defines, measures, analyzes, improves, and controls existing processes that fall below the Six Sigma specification. Six Sigma DFSS (Design for Six Sigma) defines, conceptualizes, designs, optimizes and verifies new processes or products that are trying to achieve Six Sigma quality.

Q31. PLEASE DESCRIBE THE SUPPLY CHAIN "E-STRATEGY."

A. Supply Chain's e-Strategy covers numerous initiatives to utilize electronic commerce to enable a decrease in costs through direct customer-supplier interaction and virtualization of business processes using an electronic medium. The benefits of implementation of the e-Strategy include: lower material and services costs, shorter acquisition time and order fulfillment, lower procurement process costs, improved inventory practices, and the enabling of Strategic Sourcing.

The following are some tools that Supply Chain implemented as part of its e-Strategy:

- Electronic Invoice Presentment and Payment is a web-based solution that facilitates the submission of contracts, purchase orders, and invoices. The aforementioned documents are

transmitted electronically; thus creating a more efficient process allowing the Entergy Companies to realize/capture more prompt payment discounts offered by suppliers.

- Electronic Request for Information/Proposal ("eRFX") is a platform that encompasses multiple tools that create a more efficient procurement process by reducing sourcing cycle time, reducing costs of manual transmission of sourcing documents, facilitating the delivery and tracking of all sourcing documentation (providing a comprehensive audit trail throughout the process), and improving negotiation strategy development and execution.
- Inventory Planning System is an automated decision support tool for inventory planning that was largely a manual static process. The primary benefits are improved inventory turnover, more consistent material service levels, and improved inventory forecasts.
- e-Catalog is an electronic catalog that streamlines the acquisition of non-inventoried materials such as office supplies.
- Documentum is an electronic contract repository, which allows for the storage of all contract documents in a centralized location. It also reduces the effort required to retrieve contract documents.

Q32. PLEASE PROVIDE ADDITIONAL EXAMPLES OF RECENT INITIATIVES TO CONTROL OR REDUCE COSTS FOR SUPPLY CHAIN SERVICES.

A. The Supplier Registration project entailed streamlining and automating several steps in the supplier registration process. The supplier registration process entails collecting and evaluating pertinent suppliers' safety data/documents, insurance certificates, and diversity certificates (where applicable). The project resulted in supply chain savings of $56,000 annually.

B. Price Charged to ETI

Q33. WHAT IS THE TEST YEAR AMOUNT OF AFFILIATE CHARGES FOR SUPPLY CHAIN SERVICES?

A. The total expenses charged by ESI and other affiliates for this class of service is $19,677,863, as shown in Exhibits RTJ-A, RTJ-B, and RTJ-C and as discussed in Section II of my testimony. After pro forma adjustments and exclusions, the Total ETI Adjusted amount is $1,048,563.

Q34. WHAT ARE THE PREDOMINANT BILLING METHODS USED FOR SUPPLY CHAIN SERVICES?

A. There were nine predominant billing methods for the Supply Chain class of services. For the test year, these nine billing methods were used for 92% of the total ETI Adjusted costs associated with the Supply Chain

class. These nine billing methods and their percentages are described in the following table:

Billing Method	Description	% of Charges
SCPSPXNC	Supply Chain Procurement	24%
LBRSUPCN	Supply Chain – Supervision and Support	15%
SCFSPALL	Supply Chain - Transfers, Issues, and Returns for Fossil	15%
DIRECTTX	100% to ETI	8%
DIRECT	DIRECT CHARGE TO ETI (Loaned Labor and Resources)	7%
SCPSPALL	Supply Chain Total Spending	9%
LOADTXLG	Responsibility Ratio for EGSL and ETI	6%
SCDSPALL	Supply Chain - Transfers, Issues, and Returns for Distribution	5%
SCMATXNU	Supply Chain Transactions in Asset Suite excluding Nuclear	4%

In those cases where ETI was billed directly (that is, Billing Methods "DIRECTTX" and "DIRECT"), the work was specifically related to ETI's service territory. In those cases where the SCPSPXNC, LBRSUPCN, SCFSPALL, SCPSPALL, LOADTXLG, SCDSPALL, and SCMATXNU billing methods were selected, they were selected because they reasonably reflect the cost drivers for services provided by the Supply Chain group for the function or activities supported. The standard activity measure for a Supply Chain function is the transaction intensity required to provide service (*e.g.*, the number of material issues or the number of purchase orders created). All of these billing methods are based on these transactions or a subset of these transactions. It is reasonable to base

billing methods on these transactions as they properly reflect the level of Supply Chain services demand and associated costs. Therefore, these are appropriate billing methods based on level of effort expended.

The price charged to ETI as a result of the application of these billing methods is no higher than the price charged to other affiliates for the same or similar service and represents the actual cost of the services. As described in more detail in Company witness Tumminello's testimony, this results because only one billing method is applied to any given project code and the costs are billed to the regulated affiliates at cost, without a mark-up.

Q35. PLEASE PROVIDE EXAMPLES OF THE SERVICES TO WHICH EACH OF THE NINE BILLING METHODS ABOVE WOULD APPLY.

A. The following are examples:

SCPSPXNC (Supply Chain Total Spending for Each Business Unit) – An example of a project to which this billing method would be applied is Project Code F3PCH86010 (Purchasing and Contracts Support). This billing method is appropriate for that project code because the costs associated with the project code are driven by the acquisition of goods and services for ESI. Therefore, the billing method SCPSPXNC is appropriate because it is based on Supply Chain total spending for each business unit, excluding Nuclear.

LBRSUPCN (Administrative Support for Supply Chain Activities) – An example of a project to which this billing method would be applied is Project Code F5PCZSDEPT (Supply Chain Supervision & Support). This billing method is appropriate for that project because the billing method is isolating the total Supply Chain activities related to administrative support for other projects performed and owned by Supply Chain. The allocation for LBRSUPCN is based on total ESI labor dollars billed to each company by ESI for the Supply Chain function.

SCFSPALL (Fossil Plant Spending) – An example of a project to which this billing method would be applied is Project Code F3PCW36555 (Purchasing and Contracts Support). This billing method is appropriate for that project code because the billing method is isolating the Supply Chain total spending of the fossil plants and then allocating the Supply Chain procurement costs based on that spending ratio. The billing method SCFSPALL has been specifically designed for this purpose and is therefore appropriate for the Supply Chain purchasing and contracts support of the Fossil Organization.

SCPSPALL (Composite Allocation Method) – An example of a project to which this billing method would be applied is Project Code F3PCFCPO01 (Chief Procurement Officer). The overall purpose of this project is to capture and manage costs associated with providing guidance, direction and supervision for the Materials, Purchasing & Contracts (MP&C) groups reporting to the Chief Procurement Officer in

the Supply Chain Organization. The costs are driven by the requirement to supervise, manage and plan for the current and future activities of the Supply Chain organization. As such, a composite method based on supply chain transactions, stockroom count, and supply chain spending is a reasonable approximation of the proportion of costs each entity should receive. Therefore, billing method SCPSPALL, which directs costs based on supply chain's procurement spending was chosen.

DIRECT – An example of a project to which this billing method would be applied is Project Code F5PCMATCOM (Materials Testing and Compliance). The overall purpose of this project is to capture time and expenses associated with the repair and testing of rubber goods and insulated hot sticks. This billing method is appropriate for that project code because 100% of the costs captured in the project code were incurred to provide services solely to ETI rubber goods testing and where such services were provided by other Entergy Operating Companies.

DIRECTTX - An example of a project to which this billing method would be applied is Project Code F3PPZW9612 (Fossil ETI CIP V4 Compliance). The overall purpose of this project is to capture time and expenses associated with implementing the Critical Infrastructure Protection Standards at ETI's fossil plants. This billing method is appropriate for that project code because 100% of the costs captured in the project code were incurred to provide services solely to ETI's fossil plants.

LOADTXLG (Responsibility Ratio for EGSL and ETI) – An example of a project to which this billing method would be applied is Project Code F3PCWE0027 (MP&C Plant Operation). This billing method is appropriate for that project code because the billing method is isolating the fossil plants within EGSL and ETI and then allocating the Supply Chain procurement and material management costs based on the Companies' split of load (responsibility ratio). Load is a good cost driver since each company's interest is proportional to the share of load capacity.

SCDSPALL (Distribution Organization Spending) – An example of a project to which this billing method would be applied is Project Code F5PPSUPDIS (Supply Chain Distribution Procurement). This billing method is appropriate for that project code because the billing method is isolating the Supply Chain total spending of the Distribution Organization and then allocating the Supply Chain procurement costs based on that spending ratio. The billing method SCDSPALL has been specifically designed for this purpose and is therefore appropriate for the Supply Chain purchasing and contracts support of the Distribution Organization.

SCMATXNU (Materials and Contracts Management System) – An example of a project to which this billing method would be applied is Project Code F3PCMCMSOM. The overall purpose of this project is to capture operating costs associated with the Asset Suite system, which is used to facilitate purchases of materials and services as well as inventory management.

Q36. YOU HAVE ADDRESSED THE BILLING METHODS USED TO BILL 92% OF THE COSTS TO ETI ASSOCIATED WITH THE SUPPLY CHAIN CLASS OF SERVICE. PLEASE SUMMARIZE HOW THE REMAINING COSTS ARE BILLED TO ETI.

A. The remaining costs are billed pursuant to a number of other project codes and billing methods. These project codes and billing methods are provided in Exhibit RTJ-C, discussed earlier. The reader may reference this exhibit and then refer to the specific project code summary contained in Company witness Tumminello's exhibits for a description of the particular billing method used and the cost drivers for the activities captured in the particular project code.

Q37. HAVE YOU DETERMINED THAT THE COSTS REFLECTED IN THE REMAINING 8% OF COSTS ASSOCIATED WITH THE SUPPLY CHAIN CLASS OF SERVICE HAVE BEEN BILLED TO ETI APPROPRIATELY?

A. Yes. I have reviewed each of the project codes and the associated billing methods used to bill the remaining 8% of Total ETI Adjusted costs associated with this class and they are reasonable. The costs associated with the remaining billing methods are consistent with and reflect the services captured in each respective project code. The unit cost to ETI as a result of the application of these billing methods is no higher than the unit cost to other affiliates for the same or similar service and represents the actual cost of service.