Rationale for BP22 Recommendations for Battery Storage

- Rationale for establishing a set battery to solar ratio for future years:
  - Will support the flexibility needs of the system as solar penetration increases
  - At higher solar penetrations, flexibility needs can be more economically met by adding batteries than by increasing system ancillary service requirements. For this reason, it is beneficial to build batteries in farther out years, once more solar is online.
  - Deferring when batteries are added better aligns the 20-year useful life of the battery system with the 30-year useful life of the solar facility.
  - By building a higher quantity of batteries in later years for the reasons noted above, Entergy customers will realize greater savings associated with lower battery technology costs, which are projected to decline over this period.
- Rationale for implementing the proposed battery capacity credit step down assumption:
  - Aligns the battery capacity credit with the ELCC results determined in the recently completed internal flexibility study.

ETI Coal Generation - Background

In support of ongoing supply planning efforts, the deactivation assumptions of ETI's coal units were evaluated and adjustments were determined to be reasonable and align with ongoing planning objectives.

Unit	ETI Share (%)	Total Capacity (UCAP MW)	ETI Share (UCAP MW)	BP21 Deactivation Assumption	BP22 Deactivation Assumption
Big Cajun 2 Unit 3	17.85%	[redacted]			
Nelson 6	29.75%	[redacted]			

Big Cajun 2 Unit 3 Deactivation Assumption

Recommendation

- Due to the uncertainties and market indicators described below, it is recommended to assume a [redacted] deactivation date for Big Cajun 2 Unit 3 for purposes of the 2022 Business Plan Supply Plans

Rationale

- As a minority owner, ETI has limited control over the ongoing operations and determined deactivation date of the facility
- CLECO Cajun has publicly committed to deactivating Big Cajun 2 Unit 3 by 2032
  - Based on an internal evaluation (provided in the appendix), early deactivation of the facility is economic within the MISO market
  - [redacted]
- A formal earlier deactivation announcement by CLECO Cajun is expected by the end of 2021

Nelson 6 Deactivation Assumption

Recommendation

- For Business Plan 2022, adjust the assumed deactivation for Nelson 6 to [redacted], providing economic benefit to customers, while providing ETI additional time and insights into market drivers and the ability to procure replacement capacity

Rationale

- As seen in the evaluation provided in the appendix, deactivating the facility prior to 2030 looks to provide economic benefit to customers.
- Nelson 6 provides minimal variable supply cost savings and is expected to operate at a low capacity factor moving forward.
- Due to recent transmission and generation investment in the region, the deactivation of Nelson 6 is not expected to have a reliability impact on the region.
- ETI is currently short capacity and actively pursuing additional long-term resources. A [redacted] assumption provides ETI and other co-owners an adequate opportunity to procure replacement capacity.
- [redacted]
- The resource is subject to increased environmental regulation and scrutiny, resulting in increased cost risk and uncertainty

Industrial Customer Load Considerations

- Based on feedback provided to Industrial Accounts representatives, Customers are continuing to set sustainability goals, and some are looking at electrification of processes in order to meet those goals.
- Given these considerations, ETI must plan for a range of capacity needs driven by considerable potential growth associated with electrification.
- For example, one customer alone is expected to need over 300 MW of incremental load to be served by ETI just from electrifying its processes and the timing for needing to serve the customer is not expected to change.

[redacted]

- Due to this customer's and others' desires to be served by sustainable resources, the supply plan adds incremental solar resources to meet the growing needs.
- With these additions, there are near-term execution steps needed to be able to meet the timing of the customer's load needs and ETI will continue to adjust the supply plan if the projected load changes.

[redacted]

ETI Supply Plan Next Steps

- ETI and EPG will be working on an enhanced strategic plan for the ETI service territory focused on load serving capability within an import constrained region with detailed analysis of the Western region.
- The team will continue to monitor changing customer needs and evaluate if any further changes are required as new information is provided.

Action Requested

ETI Operating Committee Concurrence:

- Request ETI Operating Committee concurrence of the Business Plan 2022 Supply Plan, as outlined in this presentation

ETI CEO Approval:

- Request ETI CEO approval of the Business Plan 2022 Supply Plan, as outlined in this presentation

Appendix

[redacted]

Nelson 6 Evaluation Overview

Economic Evaluation Purpose

The purpose of the economic evaluation is to analyze two deactivation scenarios for Nelson 6.

This analysis assumes two scenarios

Case	Description	Replacement
Case 1	[redacted]	[redacted]
Case 2	Operate as coal and deactivate on 5/31/2030	[redacted]

Replacement capacity assumptions are driven by the Operating Company's capacity position, discussed later in this presentation

[redacted]

[redacted]

[redacted]

[redacted]

Nelson 6 Environmental Considerations

- ELG (Effluent Limitation Guidelines) is an EPA regulation regarding coal ash deposits in discharge water
- Based on the current 2020 ELG rule, an investment in environmental controls would be needed by 2025 to stay in compliance with current ELG regulation* (current estimate is between $0.4 - $3.0M)

- Early deactivation would eliminate a high carbon emitting resource that is not anticipated to provide significant energy or relevant supply cost benefits for Entergy customers:
  - Lowering ELL and ETI's CO2 emissions by ~462,000 tons/year (total) between 2026 and 2030
  - Avoiding an assumed ~$2.8M/year in CO2 tax (included in the economic evaluation); and
  - Avoiding additional risk and uncertainty associated with future potential environmental compliance cost and regulations (e.g. CO2 offset cost)

*The steam electric ELG is the subject of current/ongoing litigation and reconsideration by EPA

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HIGHLY SENSITIVE PROTECTED MATERIALS

ENTERGY TEXAS, INC.
OPERATING COMMITTEE
MINUTES OF THE AUGUST 18, 2021 MEETING

Members:
Sallie Rainer, [redacted]

Advisory Members:
[redacted]

Other participants:
[redacted]

A safety briefing and diversity message were provided by [redacted] at the outset of the meeting.

Seven items were discussed:

1. [redacted]
2. [redacted]
3. Sabine Deactivation (Decision)
4. Orange County Power Station – Generator Interconnection Agreement (Decision)
5. [redacted]
6. [redacted]
7. [redacted]

1. [redacted]

[redacted]

2. [redacted]

[redacted]

FINAL

HIGHLY SENSITIVE PROTECTED MATERIALS

[redacted]

[redacted]

3. Sabine Deactivation (Decision)

[redacted] and [redacted] provided the results of analyses of possible extension of Sabine 1, 3, and 4 beyond their currently assumed deactivation dates of 2023, 2026, and 2026, respectively. [redacted] provided an overview of the scope of the analyses conducted and the economic evaluation results, while [redacted] and [redacted] provided details into the cost projections used in the analysis. After responding to several questions from the Committee, [redacted] concluded the presentation by requesting approval to deactivate Sabine 1 in 2023, Sabine 3 in 2026, and Sabine 4 in 2026 (Attachment C).

The ETI Operating Committee concurred with the recommendation to deactivate the units and ETI President & CEO, Sallie Rainer, approved the recommendation.

4. Orange County Power Station – Generator Interconnection Agreement (Decision)

[redacted] presented an overview of the results of the transmission replacement request process conducted by MISO to transfer the existing long-term transmission rights from Sabine 1, 3, and 4 to the new Orange County Advanced Power Station ("OCAPS"). Through this replacement process MISO identified one interconnection upgrade to be constructed and allowed for transfer of a portion of the transmission rights as outlined in the presentation. After responding to questions from the Committee, [redacted] requested approval to execute the Generator Interconnection Agreement ("GIA") for the transmission service being transferred from the Sabine units to OCAPS, as outlined in the presentation (Attachment D).

The ETI Operating Committee concurred with the recommendation to execute the GIA. The execution of the GIA was approved by ETI President & CEO, Sallie Rainer.

After the approval was granted, additional information was received from MISO that allowed for the transfer of more of the long-term transmission service from the Sabine units to OCAPS than was initially expected. [redacted] provided an overview of these changes to the ETI Operating Committee and ETI President & CEO on August 20, 2021 (Attachment E).

5. [redacted]

[redacted]

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HIGHLY SENSITIVE PROTECTED MATERIALS

6. [redacted]

[redacted]

7. [redacted]

[redacted]

ATTACHMENT C

Sabine 1, 3, and 4 Deactivation Assessment
ETI Operating Committee
Decision

August 18, 2021

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Creating sustainable value for all

Purpose

The purpose of this presentation is to provide the ETI Operating Committee:

- An overview of Sabine 1, 3 & 4
- The rationale for the current deactivation assumptions for Sabine 1 & 3
- An overview of the evaluation completed regarding the cost and risk of extending the lives of Sabine 1 & 3
- To summarize the evaluation supporting the deactivation of Sabine 4, and
- **To seek concurrence from the ETI Operating Committee and ETI CEO approval to deactivate Sabine 1 in 2023, Sabine 3 in 2026, and Sabine 4 in 2026, or at the time OCAPS reaches Commercial Operation.**

Background

Sabine 1, 3 and 4 are three of four existing natural gas-fired steam units at the Sabine Plant located in Bridge City, TX

Sabine 1	Sabine 3	Sabine 4
204 MW GVTC[1]	368 MW GVTC[1]	495 MW GVTC[1]
212 MW NRIS (138 kV)	418.3 MW NRIS (138 kV)	533 MW NRIS (230 kV)
COD 1962 (59 years)	COD 1966 (55 years)	COD 1974 (47 years)
2023 deactivation assumption (unit will be 61 years old)	2026 deactivation assumption (unit will be 60 years old)	2026 deactivation assumption (unit will be 52 years old)

1.Based on GVTC ratings used for MISO Planning Year 2021-2022

Sabine Deactivation Assumptions

- These three Sabine units will be 52-61 years old at their current assumed deactivation dates, as shown on the previous slide.

- The deactivation date assumptions are based in part on a 60-year life assumption for natural gas steam units with the exception of Sabine 4.
  - An analysis was conducted in 2016 to evaluate deactivating Sabine 1 and 3 earlier than 60 years, but concluded it was more beneficial to customers to maintain the existing deactivation assumptions
  - As discussed in this presentation, an evaluation was completed to assess the economics of extending the units' assumed-deactivation dates.

- At the ETI OC meeting in June 2018, the deactivation date for Sabine 4 was updated to 2026.
  - Several industry studies showed the average age of similar resources at the time of retirement supported a deactivation date earlier than 60 years.
  - This was further supported by the experience of the Entergy Operating Companies where the average age at deactivation was ~52 years.
  - Additionally, in 2019, ETI evaluated whether an investment in Sabine 4 to reach a 60-year life assumption was appropriate for meeting long-term capacity and energy needs, but that alternative was not the optimal solution for customers

- Given the coming deactivation dates, units' long operating lives, and declining Service Factors in recent years, these units are viewed as short-term resources and are no longer optimal solutions for meeting ETI's long-term planning needs.

Sabine 1 & 3
Evaluation Overview

Background and Objective

- The current deactivation assumptions for Sabine Units 1 and 3 are 2023 and 2026, respectively.
- The purpose of the Sabine 1 and 3 deactivation analysis is to consider the relative risks and quantify the relative economic cost and benefits associated with:
  - Base Case: Deactivating the units on the current deactivation schedule and replacing with replacement capacity/energy
  - Change Case 1: Sustaining both units 1 and 3 for an additional 5 years
  - Change Case 2: Sustaining Sabine 1 an additional 3 years until 2026

Deactivation Date Assumptions:

Unit	Base Case	Change Case 1: 5-year Extension	Change Case 2: Sabine 1 Extension to 2026
Sabine 1	2023	2028	2026
Sabine 3	2026	2031	2026

Sabine 1 & 3
Power Generation Analysis

Sabine Unit Conditions

- Beyond safety, Power Generation's maintenance program gives particular focus to systems that are critical to plant operation and reliability, and the systems are prioritized according to their criticality to operations.
- Power Generation subject matter experts (SMEs) routinely evaluate the condition of each generating unit and identify necessary investment to address safety and reliability concerns over the next five-year period (or its otherwise anticipated remaining operating life).
  - Among other things, Power Generation management considers a unit's criticality within the Operating Company's generating portfolio, along with the unit's future projected operating role.

Sabine 1

- No safety issues at this time
- The boiler is the primary risk for failure given its age

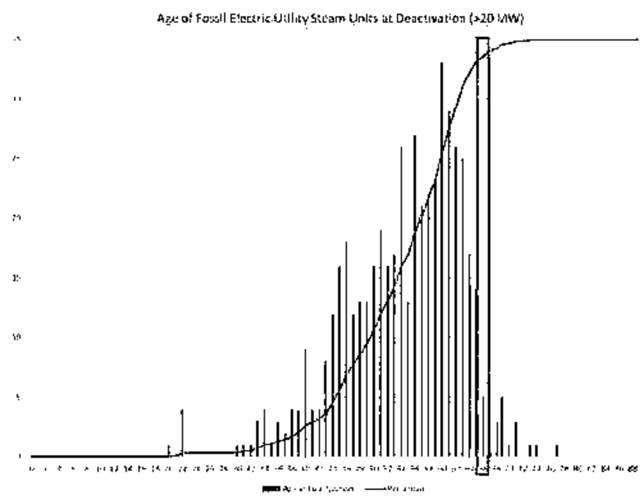
Sabine 3

- No safety issues at this time
- The generator is the original equipment and represents the highest risk for failure of the unit

Assessment Description / Assumptions

- Entergy conducted a study on the condition of the Sabine Unit 1 and 3 units to determine the overall costs to continue to operate both units consistent with recent reliability within the MISO Energy market through;
  - Extension Case 1: U1 (2028) and U3 (2031)
  - Extension Case 2: U1 (2026).

- The analysis is based on historical operating data, SME equipment condition assessments, and industry assessments/studies. Sources include:
  - Entergy Equipment SMEs (Plant and Fleet Maintenance)
  - Burns & McDonnell Sabine 4 Study
  - Intertek Sab 1&3 HILP Study (Oct 2020)
  - RAMCO Sabine Risk Profile Assessment (2015)



- A key assumption was that the units would need to maintain recent reliability (last 3 years) throughout the entire study period. These levels were: Unit 1 EFORd (2017-2019) at [redacted]% and Unit 3 EFORd (2017-2019) at [redacted]%.

- Based on the assessment results, Entergy developed financial estimates to support the two extension cases to support EPG's financial analysis.

Sabine 1 & 3 5-Year Extension Projects – Environmental Assessment

****This assessment contemplates impacts of OCAPS****

Additional environmental considerations with Sabine 1 and 3 and OCAPS operating concurrently:

<u>Implications on the Air permitting:</u>

- Cumulative Modelling concerns for a few of the pollutants and possible impact to permit requirements. There is a chance that the hourly and 24-hr limits of 2 or 3 pollutants might be difficult to pass in the modelling that includes units 1,3 and OCAPS. This would mean that there could be requirements listed as permit conditions that mandate certain restrictions, i.e. only Unit 1 and OCAPS can operate alone at a given time or units 1 and 3 can operate when OCAPS is offline.
- The Emission Standard for Attainment Demonstration (ESAD) is based on 30 TAC Chpt. 117 and basically applies to Boilers and for Sabine. It is currently a Texas rule that remains in place to address NOX emissions. It is setup as a CAP for the site and is geared towards heat rate improvement and NOx emission limits (lb./BTU). In order to keep the older units 1 and unit 3 running, there might be costs attributed to meeting this requirement.
- Would need to evaluate Acid Rain / CSAPR allowances to ensure it could provide for all the units either organically or purchase available allowances in the market.
- The planned retirement of Sabine Unit 1 will more than offset the NOx emissions and 0.3% to 11% of the other operational emissions for the site based on the average of reported emissions in 2019 and 2020 and the planned retirement of Unit 3 will offset an additional portion of the operational emissions for the site.

<u>Implications on wastewater discharge from OCAPS:</u>

- OCAPS would not be able to route wastewater discharge to Units 1 and 3 cooling water intake canal with Units 1 and 3 once through cooling system operating.
- Routing OCAPS wastewater discharge to the existing discharge canal for Sabine units 1-4 must consider:
  - Maintaining separation between the Sabine plant and OCAPS operations and TPDES permitting and compliance
  - Avoiding construction of OCAPS (pipelines) on existing and older infrastructure for engineering, construction and warranty provisions
  - **<u>Remedying these considerations will require ~$10M (+/- 50%) in capital modifications for routing to the existing Sabine discharge canal. This cost would be borne by the OCAPS</u>**

11

[redacted]

Intertek Study – High Impact Low Probability (HILP)

Unknown Risks Not Modeled

Even with completion of the identified project spend, continued operation of Sabine 1 and 3 carries risk given the uncertainties regarding the condition of existing equipment and the age of the components. Such unknown risks do not lend themselves to precise quantification. Data have been provided to incorporate into a sensitivity analysis to analyze the impact of risk contingencies not included in the project estimates. Intertek was consulted to provide this High Impact, Low Probability (HILP) study.

When considering unknown risks, Power Gen notes that SB1/SBC is 59 years old today, SB3 is 55 years old today and have accumulated many equivalent service hours over time. Such units typically carry unknown risks associated with infrastructure such as electrical cabling, miscellaneous motors, and overall equipment obsolescence. The annual target xEFORd may vary significantly from actual results.

Power Gen and Intertek performed this study to determine the risk of these HILP events and the potential cost contingency associated with these events. But it should also be noted that risk-based contingencies do not fully cover the immediate cost of the most significant failure events. Although Power Gen has performed a comprehensive analysis of the unit risks, it is still possible that one significant failure of a known or unknown mechanism may lead to an economic decision to decommission the unit before the extension case target decommission date.

Sabine 1 & 3
Transmission Analysis

[redacted]

[redacted]

Sabine 1 & 3
Economic Analysis

[redacted]

[redacted]

Sabine 4
Deactivation Evaluation

Sabine 4 Evaluation Overview

2019 Portfolio Analysis Summary presented at the January 29, 2020 ETI Operating Committee

- In 2019, a long-term portfolio analysis was conducted to determine the right mix of resources to meet the 2026+ capacity and energy needs.
- The analysis compared five portfolios including an alternative of keeping Sabine 4 online beyond the current 2026 deactivation assumption (Portfolio 5)
- Given the results of the analysis, the extension of Sabine 4 was determined to not be the optimal solution for addressing ETI's long-term needs

Economic Evaluation

Studied portfolios under four futures

2x1 CCCT portfolio resulted in the least cost alternative under all futures

Variance to Least Cost Portfolio (PV 2019; $M)	Portfolio 1	Portfolio 2	Portfolio 3	Portfolio 4	Portfolio 5
Future 1	$160	$-	$190	$269	$71
Future 2	$214	$-	$186	$320	$56
Future 3	$198	$-	$188	$299	$80
Future 4	$237	$-	$180	$296	$163

Risk Analysis

Relative rankings* of portfolios across seven risk factors

2x1 CCCT portfolio had the second highest ranking; Portfolio 5 (Sabine 4 extension) was the highest risk alternative

Qualitative Risk Metric	Portfolio 1	Portfolio 2	Portfolio 3	Portfolio 4	Portfolio 5
Market Risk	3	5	5	4	3
Region Reliability	5	4	5	5	3
Modernization of Fleet	5	5	5	5	3
Executability	2	5	4	2	3
Optionality	4	3	3	4	5
Fuel Supply Diversity	4	3	3	4	4
Environmental	4	3	3	5	2
Total Ranking	**3.9**	**4**	**4**	**4.1**	**3.3**

*Rankings were based on 1 being least favorable and 5 being most favorable.

- Given this portfolio analysis, the known costs of maintaining Sabine 1 and 3 discussed previously in this presentation, and that Sabine 1 and 3 are older and carry more risk than even Sabine 4, the extension of all three units would not result in a better solution for meeting the long-term needs of customers than Portfolio 2 (2x1 CCCT).

Key Takeaways and Next Steps

Takeaways

- The analysis of sustaining both Sabine 1 and 3 an additional 5 years indicates that it is not economic and would carry significant operational risk to extend the operation the units beyond 2023 and 2026, respectively.

- The extension of Sabine 4 beyond 2026 is not the optimal solution for addressing ETI's long-term needs

Next Steps

- ETI along with EPG and Power Generation will continue to monitor these resources, the progress towards the completion of OCAPS, and the capacity needs of the region and will bring any modifications to this proposal to the ETI Operating Committee at that time.

- At the time of the Attachment Y submission to MISO for the deactivation of Sabine 1, a request will be presented to the Operating Committee regarding a decision to Suspend or Retire the facility.

Request

ETI Operating Committee Concurrence

- Request ETI Operating Committee concurrence to deactivate Sabine 1 in 2023, Sabine 3 in 2026, and Sabine 4 in 2026, or at the time OCAPS reaches Commercial Operations, as outlined in this presentation.

ETI CEO Approval

- Request ETI President & CEO approval to deactivate Sabine 1 in 2023, Sabine 3 in 2026, and Sabine 4 in 2026, or at the time OCAPS reaches Commercial Operations, as outlined in this presentation.

Appendix

[redacted]

25

[redacted]

26

[redacted]

ATTACHMENT D

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Orange County Advanced Power Station:
Generator Interconnection Agreement

ETI Operating Committee Decision Request
August 18, 2021

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Action Requested

The Orange County Advanced Power Station (“OCAPS”) project team requests ETI Operating Committee concurrence and ETI CEO approval for executing the Generator Interconnection Agreement (“GIA”) for the megawatts associated with the transmission replacement process, as outlined in this presentation.

Background

- In the June 2020 ETI Operating Committee meeting, approval was granted to use the replacement process to transfer a portion of the existing Sabine transmission service from units 1, 3, and 4 to OCAPS.

- The project team applied for the MISO Generator Replacement process in July 2020.

- Because there would still be an additional capacity amount needed in excess of the replacement request for OCAPS to be fully deliverable to the MISO market, a full Definitive Planning Phase (“DPP”) application was also required, and the project team submitted that application in June 2020.

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Generator Replacement Process

- The Replacement Application was submitted in July 2020

- MISO conducted the evaluation and determined that a portion of the long-term transmission service for Sabine Units 1, 3, and 4 could be transferred to OCAPS with the upgrades outlined later in this presentation.

- These GIA negotiations are on-going for the replacement megawatts.

- The replacement process is completed earlier than the traditional DPP planning process timeline and the GIA associated with the megawatts being transferred to OCAPS must be completed by August 20, 2021.
  - The MW needed for full deliverability of OCAPS will be updated during Decision Point 1 of the 2020 DPP Study.
  - Once the 2020 DPP Study is completed any additional upgrades needed will be negotiated and the OCAPS GIA will be amended to include the remaining megawatts and upgrades for full deliverability.

- Deactivation commitment to MISO contingent on OCAPS receiving regulatory approval and achieving commercial operations.

  Sabine U1 – June 2023 (may be postponed past June 2023, but cannot be accelerated ahead of May 2023)
  Sabine U3 – May 2026
  Sabine U4 – May 2026

Generator Replacement Process

- The tables below shows the requested megawatts to be transferred to OCAPS from the Sabine units.
- This transfer is based on the megawatts available on each voltage level versus the megawatts that are needed for OCAPS based on how the unit is split up on the voltage system.

NRIS	Sabine 1	Sabine 3	Sabine 4	Total Sabine NRIS	Transfer to OCAPS NRIS	OCAPS Application*	Incremental Request
138 kV System	212.0	418.3	0.0	630.3	630.3	817.5	187.2
230 kV System	0.0	0.0	533.0	533.0	412.5	412.5	0.0
Total MW	212.0	418.3	533.0	1163.3	1042.8	1230.0	187.2

NRIS + ERIS	Sabine 1	Sabine 3	Sabine 4	Total Sabine NRIS + ERIS	Transfer to OCAPS NRIS + ERIS	OCAPS Application NRIS + ERIS*	Incremental Request
138 kV System	212.0	420.0	0.0	632.0	632.0	848.5	216.5
230 kV System	0.0	0.0	534.0	534.0	443.5	443.5	0.0
Total MW	212	420	534	1166	1075.5	1292	216.5

- As discussed previously, the incremental MW will be updated in the MISO 2020 DPP Study.

* Note - Application higher than preliminary estimated max capacity to accommodate improvements in design over the coming years.

Generator Interconnection Agreement Projects

- The only upgrade identified in the Replacement Process was the interconnection project for connecting OCAPS to the MISO grid, given that the replacement process is just replacing megawatts from Sabine with megawatts from OCAPS

- These upgrades are contingent on OCAPS receiving regulatory and permitting approvals.

Upgrade Classification	Description	Cost
Interconnection Facilities	Sabine 138 kV Substation Bays and 138 kV Lines & Sabine 230 kV Substation Bays and 230kV Lines	$15,432,000

- Additional projects are expected to be identified through the MISO 2020 DPP Study for the incremental MW needed for full deliverability.

- The Project Team will return to the ETI Operating Committee to request approval to amend the OCAPS GIA at the time the final upgrades have been identified in the MISO 2020 DPP Study which is currently expected to be sometime between April 2022 and September 2022.
  - <u>MISO 2020 DPP cycle schedule as of 8/1/2021</u>
    - Definitive Planning Phase – Phase 1 Complete 9/14/21
    - Definitive Planning Phase – Phase 2 Complete 12/6/21
    - Definitive Planning Phase – Phase 3 Complete 4/19/22
    - Definitive Planning Phase – GIA amendment Complete 9/16/22

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Approval Request

ETI Operating Committee Concurrence:
Request ETI Operating Committee concurrence of the recommendation for ETI to execute the OCAPS GIA, as outlined in this presentation, on behalf of the generator owner and ESL to execute on behalf of ETI as the transmission owner, as outlined in this presentation.

ETI Operating Committee Concurrence:
Request ETI CEO approval for ETI to execute the OCAPS GIA on behalf of the generator owner and ESL to execute on behalf of ETI as the transmission owner, as outlined in this presentation.

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Appendix

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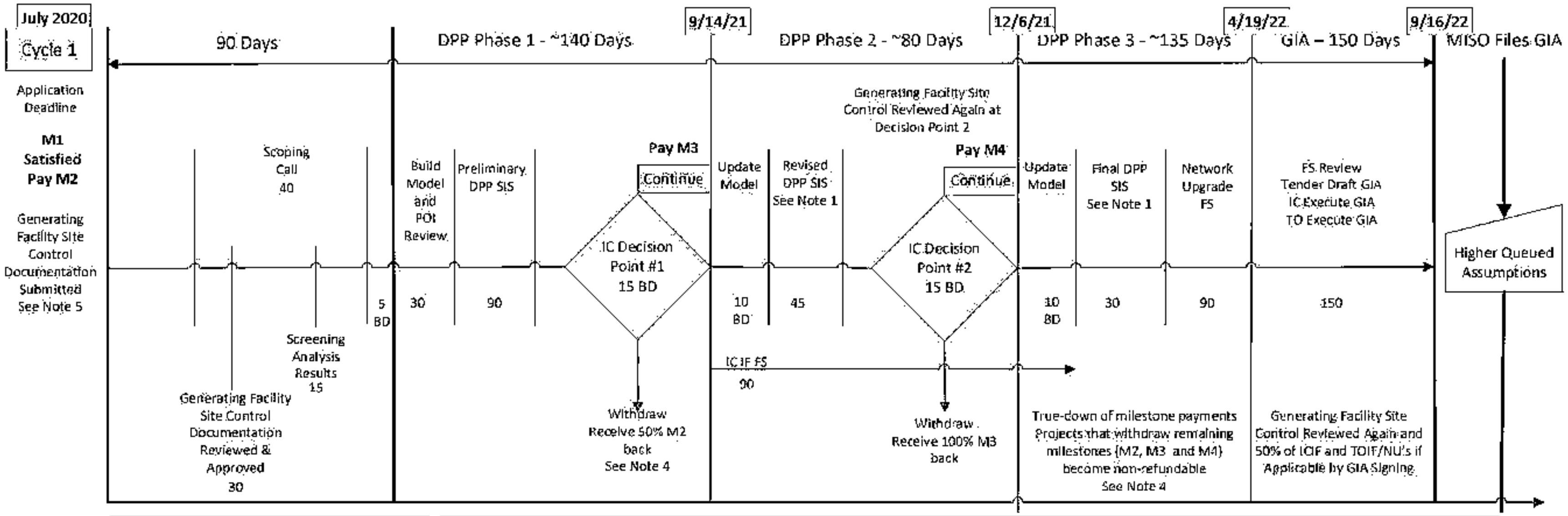
MISO 2020 DPP Timeline as of 8/1/2021



M1 = Technical requirements, D1 + D2
M2 = $4000/MW
M3 = (10% of NU) – M2 See Note 2
M4 = (20% of NU) – M3 – M2 See Note 2

Acronyms:

BD: Business Days	IC: Interconnection Customer	DPP: Definitive Planning Phase	IF : Interconnection Facility
M1, M2, etc.: Milestones	D1: Application Fee	D2 : DPP Study Funding Deposit	NU : Network Upgrades
FS: Facilities Study	POI: Point of Interconnection	GIA : Generator Interconnection Agreement	SIS : System Impact Study

Notes:

1) Effective September 19th 2018, for new cycles, Affected System, Stability, and Short Circuit Studies are required only for DPP Phase 2 and DPP Phase 3
2) M3 and M4 will be adjusted based on previously paid M3 and M4 for Provisional Requests
3) DPP Phase 1 and Phase 2 of each cycle will model higher queued assumptions from previous Phase 3 studies as available during the time of the study
4) True-down and Milestone M2 50% at risk should a project withdraw go into effect beginning with DPP-2020-Cycle
5) Site Control documentation for Review #1 is due at least 90 Calendar Days prior to the kick-off of DPP Phase 1 beginning with DPP-2020-Cycle
6) Days on this diagram are Calendar Days unless where noted as Business Days – "BD"

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ATTACHMENT E

[redacted]

From: [redacted]
Sent: Friday, August 20, 2021 9:41 AM
To: [redacted]
Cc: [redacted]
Subject: ETI Operating Committee - OCAPS GIA Update

All,

After receiving approval to execute the GIA associated with the replacement megawatts at the ETI OC meeting on August 18, 2021, additional discussions with MISO led to ETI's ability to transfer the full NRIS and ERIS megawatts from the Sabine units to OCAPS because MISO determined that ETI should not be limited to the specific megawatts on each voltage level that the Sabine units had. Thus the GIA will be transferring 1,163.3 MW of NRIS and 1,166.0 MW of ERIS from Sabine to OCAPS. There are no changes to the upgrades that are being committed by executing this GIA due to the incremental megawatts being transferred so no additional approval is needed.

Additionally, this means that ETI will be requesting fewer megawatts for OCAPS in the MISO 2020 DPP Study. As mentioned in the meeting yesterday, the Team will return to the ETI Operating Committee to request approval of any amendment needed to the GIA for these incremental megawatts once Phase 3 of the 2020 DPP Study has been completed.

See the summary table below for the updated transfer amounts and incremental needs in bolded text.

NRIS	Sabine 1	Sabine 3	Sabine 4	Total Sabine NRIS	Transfer to OCAPS NRIS	OCAPS Application NRIS*	Incremental Request
138 kV System	212	418.3	0	630.3	**763.3**	817.5	**54.2**
230 kV System	0	0	533	533	**400**	412.5	**12.5**
Total MW	212	418.3	533	1,163.3	**1,163.3**	1230	**66.7**

NRIS + ERIS	Sabine 1	Sabine 3	Sabine 4	Total Sabine NRIS + ERIS	Transfer to OCAPS NRIS + ERIS	OCAPS Application NRIS + ERIS*	Incremental Request
138 kV System	212	420	0	632	**766**	848.5	**82.5**
230 kV System	0	0	534	534	**400**	443.5	**43.5**
Total MW	212	420	534	1,166	**1,166**	1292	**126**

Please let us know if you have any questions or would like to discuss further.

Thank you,
[redacted]

[redacted]

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See Native Excel file Meyer Direct_WP_ARM Testimony.

DOCKET NO. 53719

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

DIRECT TESTIMONY

OF

STACEY L. WHALEY

ON BEHALF OF

ENTERGY TEXAS, INC.

JULY 2022

ENTERGY TEXAS, INC.
DIRECT TESTIMONY OF STACEY L. WHALEY
2022 RATE CASE

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EXHIBITS

I. INTRODUCTION AND QUALIFICATIONS

Q1. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Stacey L. Whaley. 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, LLC ("ESL") as Senior Manager, Regulatory Tax Accounting.

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

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

Q4. DESCRIBE BRIEFLY YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL EXPERIENCE.

A. I hold a Bachelor of Science in Accounting from Louisiana State University. I worked for three years as a Tax Associate with Deloitte and Touche, LLP ("Deloitte"). With Deloitte, I prepared large corporate consolidated and individual tax returns and completed tax provisions for various clients. In addition, I was employed by Cleco Support Group LLC ("Cleco") for approximately 10 years as a tax analyst and in tax management positions. My responsibilities at Cleco involved income tax forecasting, presentation of Financial Accounting Standards Board's Interpretation No. ("FIN") 48 positions, and review of income taxes in all regulatory filings. My career spans approximately 13 years with ESL where I have held senior analyst and management positions within the Income Tax Department.

A summary of my education and work experience is included as Exhibit SLW-1.

Q5. WHAT ARE YOUR PRINCIPAL AREAS OF RESPONSIBILITY?

A. In my present position, I am responsible for the management of the Company's regulatory income tax matters, including the retail jurisdictional filings, Federal Energy Regulatory Commission filings, income tax accounting and financial reporting, as well as written testimony. This includes, but is not limited to, monitoring regulatory income tax implications, preparing responses to discovery requests for tax information, and ensuring compliance with the Internal Revenue Code normalization requirements.

II. PURPOSE OF TESTIMONY

Q6. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to support the Company's federal income tax amounts found in the G-7 Schedules and included in ETI's requested cost of service. In addition, I sponsor two classes of affiliate costs: Income Tax Expense and Tax Services. These two classes are within the Corporate Support Services family of classes as shown on my attached Exhibits SLW-2 and SLW-3.

Q7. WHY ARE YOU THE APPROPRIATE PERSON TO SPONSOR THESE TOPICS?

A. In my role as Senior Manager, Regulatory Tax Accounting, I have detailed knowledge regarding the amounts of income tax expense paid by all regulated Entergy affiliates, including ETI and ESL.

Q8. WHAT TEST YEAR IS THE COMPANY USING IN THIS FILING?

A. This filing uses the twelve months ended December 31, 2021 as the test year.

Q9. DO YOU SPONSOR OR CO-SPONSOR ANY SCHEDULES IN THE RATE FILING PACKAGE ("RFP") THAT HAVE BEEN FILED IN THIS PROCEEDING?

A. Yes, I sponsor or co-sponsor several schedules filed in this proceeding. Exhibit SLW-4 indicates the schedules that I am sponsoring or co-sponsoring with other witnesses. The schedules were prepared by me or under my direct supervision.

Q10. DOES YOUR TESTIMONY EXPLAIN ALL SCHEDULES THAT YOU CO-SPONSOR?

A. No. The discussion below concerns only those schedules for which I am the sole sponsor. To avoid duplication, the schedules I have co-sponsored with other Company witnesses will be addressed in their testimony as applicable.

Q11. ON WHAT BASIS WERE THE SCHEDULES YOU SPONSORED PREPARED?

A. They were prepared using the books and records of the Company and are accurate summaries of the business records upon which they are based.

Q12. ARE YOU SPONSORING ANY EXHIBITS?

A. Yes. I sponsor the exhibits listed in the Table of Contents to my testimony.

III. <u>INCOME TAX SCHEDULES</u>

Q13. ARE SCHEDULES G-7.3 THROUGH G-7.3A CONCERNING CONSOLIDATED TAXES APPLICABLE TO ETI?

A. No. Effective September 11, 2019, ETI files a separate federal income tax return and is no longer included in the Entergy Corporation and Subsidiaries consolidated return. ETI is no longer required to present information regarding consolidated tax savings due to the 2013 amendments to Public Utility Regulatory Act ("PURA") § 36.060.

Q14. PLEASE DESCRIBE SCHEDULE G-7.4A, ADFIT - DESCRIPTION OF TIMING DIFFERENCES.

A. Timing differences giving rise to deferrals shown in Schedule G-7.4 are described in Schedule G-7.4a. The timing differences are detailed to show the type of timing difference. A further description of these timing differences is included in

Schedule G-7.13a, History of Tax Normalization. Where known, the anticipated remaining life for each timing difference is shown.

Q15. HAS ENTERGY MADE ADJUSTMENTS TO SCHEDULE G-7.4 TEST YEAR END BOOK BALANCES?

A. Yes. ETI's proposed adjustments to the test year end book balances are reflected on Schedule G-7.4.

Q16. PLEASE DESCRIBE SCHEDULE G-7.5, ANALYSIS OF INVESTMENT TAX CREDIT ("ITC").

A. This schedule presents the analysis of the ITC adjustment. The "stripped" book depreciation rate of 2.692% reflected in the schedule is derived from the book depreciation calculation. This "stripped" rate represents the service life portion of the book depreciation rate without regard to amounts for cost of removal or salvage. As the schedule indicates, the ITC amortization rate reflected in the Company's filing is 2.692%. The ITC amortization should be adjusted if the proposed book depreciation rate is changed.

Q17. PLEASE DESCRIBE SCHEDULE G-7.5A, ITC UTILIZED.

A. This schedule is an analysis of the years ITC was utilized for tax return purposes.

Q18. PLEASE DESCRIBE SCHEDULE G-7.5B, ITC GENERATED BUT NOT UTILIZED.

A. This schedule indicates that the Company's ITCs were fully utilized by the end of 1999.

Q19. PLEASE DESCRIBE SCHEDULE G-7.5D, ITC ELECTIONS.

A. Elections regarding ITC are shown on this schedule. There have not been any new elections since the Company's last base-rate filing. One of the elections made was to amortize ITC ratably to cost of service rather than to reduce rate base.

Q20. PLEASE EXPLAIN WHAT IS SHOWN ON SCHEDULE G-7.9, AMORTIZATION-PROTECTED/UNPROTECTED EXCESS DEFERRED TAXES.

A. Schedule G-7.9 summarizes the Company's amortization of protected excess deferred federal income taxes. ETI is amortizing the protected excess deferred income tax balance of $197.3 million, which includes an increase of $5.7 million to reflect the final amount per the as filed 2017 federal income tax return, by using the average rate assumption method ("ARAM"), which is required by the Tax Cuts and Jobs Act ("TCJA") and the IRS's normalization rules. Under this method, excess in the reserve for deferred taxes is reduced over the remaining lives of the property as used in ETI's books of account that gave rise to the reserve for deferred taxes.

Q21. PLEASE DESCRIBE SCHEDULE G-7.9A, ANALYSIS-EXCESS DEFERRED TAXES BY TIMING DIFFERENCE.

A. This schedule reflects both the excess deferred income tax balances presented in Schedule G-7.9 and the unamortized balance of excess deferred taxes at test year end by timing difference.

Q22. PLEASE EXPLAIN WHAT IS DEPICTED ON SCHEDULE G-7.9B, RECONCILIATION OF EXCESS DEFERRED TAXES.

A. This schedule reconciles the balance of excess deferred taxes at the end of the test year to the balance of excess deferred taxes in the Company's last completed base-rate case filing, Docket No. 48371.

Q23. PLEASE DESCRIBE SCHEDULE G-7.9C, ANALYSIS-RESERVE ACCOUNTING-EXCESS DEFERRED TAXES.

A. This schedule explains that the Company's unprotected excess deferred tax reserve established by prior Commission order will be fully amortized at the end of September 2022.

Q24. PLEASE DESCRIBE SCHEDULE G-7.13A, HISTORY OF TAX NORMALIZATION.

A. This schedule details the history of tax normalization for the Company and also details items for which deferred taxes were not provided.

Q25. PLEASE DESCRIBE SCHEDULE G-7.13B, TAX ELECTIONS.

A. Tax elections made by the Company are detailed in this schedule. Certain provisions in the Internal Revenue Code require taxpayers to include elections in returns specifying the tax treatment selected by the taxpayer which may be binding on future treatment of like transactions.

Q26. SCHEDULE G-7.13C REFERS TO CHANGES IN ACCOUNTING FOR DEFERRED TAXES. HAS THE COMPANY MADE ANY SUCH CHANGES?

A. No, it has not.

Q27. DOES ETI HAVE ANY TAX POSITIONS THAT ARE REQUIRED TO BE ACCOUNTED FOR IN ACCORDANCE WITH FIN 48 THAT ARE INCLUDED IN THE ACCUMULATED DEFERRED INCOME TAX ("ADIT") ACCOUNTS?

A. Yes. ETI has tax positions that must be accounted for in accordance with FIN 48 that are included in the ADIT accounts. As of test year end, deferred taxes associated with these tax positions amounted to approximately $18.3 million.

Q28. PLEASE DESCRIBE SCHEDULE G-7.13D, IRS AUDIT STATUS.

A. This schedule explains the Company's current Federal Income Tax ("FIT") audit status. The Company is currently under audit for the years 2016 through 2018.

Q29. SCHEDULE G-7.13E RELATES TO PRIVATE LETTER RULINGS SINCE THE LAST RATE FILING. HAVE THERE BEEN ANY PRIVATE LETTER RULINGS RECEIVED THAT AFFECT THE FIT OF THE COMPANY OR ITS PARENT?

A. No. There have been no private letter rulings received by ETI or its parent since the last completed rate filing that affects the FIT of the Company or its parent.

Q30. PLEASE DESCRIBE SCHEDULE G-7.13F, METHOD OF ACCOUNTING FOR ADFIT RELATED TO NET OPERATING LOSS ("NOL") CARRYFORWARD.

A. This schedule describes the accounting for NOLs and the amount of carryforwards available at the end of the Test Year. ETI has an NOL carryforward as of December 31, 2021 of $2.6 billion, and there is $537.3 million of NOL ADIT that is being eliminated from rate base in accordance with the order in Docket No. 50540.[1]

IV. <u>FIN 48</u>

Q31. PLEASE DISCUSS ETI'S PROPOSAL REGARDING FIN 48 LIABILITIES.

A. FIN 48 prescribes the way in which a company must analyze, quantify, and disclose the potential consequences of "uncertain" tax positions, disclosed on IRS

[1] *Application of Entergy Texas Inc. for an Accounting Order Related to a Tax Accounting Method Change*, Docket No. 50540, Accounting Order, Ordering Paragraph 2 (Mar. 26, 2020) ("All ADIT balances and FIN 48 liabilities associated with the ETI tax position must be permanently disregarded for ratemaking purposes except for the flow of credits to customers through the mark-to-market rider included as attachment C to the agreement filed on March 4, 2020.").

Schedule Uncertain Tax Position ("UTP"). As mentioned above, ETI's current amount of FIN 48 liabilities that are included in the ADIT accounts is approximately $18.3 million.

As mentioned above, ETI is proposing to reduce rate base by the amount of its current FIN 48 liabilities. In addition, as presented by ETI witness Crystal Elbe, ETI is proposing a deferred tax rider, Rider DTA, that will track amounts paid to the IRS that result from any unfavorable FIN 48 audits. I discuss the necessity of Rider DTA below.

Q32. IS ETI'S PROPOSAL REGARDING THE TREATMENT OF FIN 48 LIABILITIES CONSISTENT WITH THAT ESTABLISHED BY THE COMMISSION IN ETI'S LAST FULLY LITIGATED BASE-RATE CASE, DOCKET NO. 39896?

A. Yes. In Docket No. 39896, the Commission ordered ETI to include FIN 48 liabilities in ADFIT as a reduction to rate base.[2] However, to compensate ETI for lost return on rate base in the event the IRS reverses an amount booked to FIN 48, the Commission also ordered that ETI be permitted to include a mechanism to recover, prospectively, a return on FIN 48 amounts actually paid to the IRS.[3] Specifically, the final order in Docket No. 39896 authorized ETI to establish a deferred-tax-account tracker in the form of a rider to recover on a prospective

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2 *Application of Entergy Texas, Inc. for Authority to Change Rates, Reconcile Fuel Costs, and Obtain Deferred Accounting Treatment*, Docket No. 39896, Order on Rehearing at Finding of Fact Nos. 38-39 (Nov. 1, 2012).

3 Docket No. 39896, Order on Rehearing at Finding of Fact No. 40A.

basis an after-tax return at the Company's weighted average cost of capital on the amounts paid to the IRS that result from a reversal of those tax positions.

Q33. PLEASE DESCRIBE RIDER DTA.

A. Rider DTA will track unfavorable IRS decisions on uncertain tax positions that ETI is required to record as a tax liability under FASB Interpretation No. 48 (FIN 48). The rider will permit ETI to collect, on a prospective basis, the after-tax return on amounts actually paid to the IRS, consistent with the Commission's decision in Docket No. 39896.

Q34. PLEASE EXPLAIN WHY RIDER DTA IS NECESSARY TO COMPENSATE ETI FOR LOST RETURN ON RATE BASE.

A. FIN 48 is a Generally Accepted Accounting Principles ("GAAP") standard that requires ETI to analyze and quantify uncertain tax positions that, in the opinion of its tax experts, will more likely than not be reversed by the IRS during audit. Once determined, ETI must record a tax liability in the amount of the position. If the position is reversed, ETI must pay the amount due plus interest from the date the position was taken on its tax return. Because ETI recorded a tax liability and paid interest on the amount due, the FIN 48 amount never represented an interest-free loan. However, under the Commission's precedent, such amounts are required to be included in ADFIT as a reduction to rate base. As such, ratepayers receive a reduction in the amount of return required to be paid on ETI's rate base. The rationale for such reduction is that the utility has use of the ADFIT as an interest-free loan from the government. However, reversed FIN 48 positions are recorded as liabilities and bear interest; thus, these amounts do not represent cost-free capital. Rider DTA compensates ETI for the lost return on rate base by providing a return on the reversed amount.

The Commission's decision to include FIN 48 liabilities in ADFIT, and thereby reduce ETI's rate base, unequivocally gives ratepayers a significant benefit because such amounts do not reflect cost-free capital. However, the Commission has decided that ratepayers should receive all the benefits up front of any uncertain tax position regardless of whether such amounts will ultimately have to be paid, with interest to the IRS. Because FIN 48 amounts will more likely than not be paid to the IRS, the failure to include some remedy for ETI's lost return would be a harsh result. Rider DTA simply provides a mechanism for ratepayers and the utility to share the risks and benefits of the loss of FIN 48 amounts.

Q35. ARE THERE OTHER POLICY REASONS FAVORING RIDER DTA?

A. Yes. Rider DTA encourages ETI to take uncertain tax positions and aggressively pursue them with the IRS. If it were the case that uncertain tax positions were taken as a reduction to rate base, without any potential compensation for lost return, then it would be squarely against ETI's interest to take such positions in the first place. Rider DTA benefits ratepayers by incentivizing ETI to take positions that immediately inure to ratepayers' benefit, while providing some level of compensation to ETI if the position is ultimately reversed.

Q36. WHAT IS YOUR RECOMMENDATION IN THE EVENT THE COMMISSION DECIDES TO REJECT RIDER DTA?

A. If the Commission wishes to reconsider its precedent on this issue, it should decide that FIN 48 liabilities do not represent cost free capital and should not be included as an ADFIT reduction to rate base. As mentioned, FIN 48 amounts must be recorded as tax liabilities on ETI's books because they will more likely than not be reversed by the IRS. In addition, ETI is required to accrue interest expense on the uncertain tax positions. Ultimately, if FIN 48 tax positions are disallowed by the IRS, ETI pays both the principal amount and the interest on that amount to the IRS. To the extent the Commission reverses course and decides against the inclusion of Rider DTA, it should exclude ETI's FIN 48 liabilities from ADFIT.

V. <u>INCOME TAX EXPENSE CLASS OF AFFILIATE COSTS</u>

Q37. PLEASE DESCRIBE THE INCOME TAX EXPENSE CLASS OF COSTS THAT YOU ARE SPONSORING.

A. This class of affiliate costs consists of the federal income tax expense that ESL incurred in the test year. The ESL income tax expense is billed to the other Entergy companies, including ETI, just as any other costs incurred by ESL. My testimony and the testimony of Ryan M. Dumas will explain in more detail how the ESL costs are allocated to ETI and the other companies.

Q38. WHAT IS THE TOTAL AMOUNT OF ESL INCOME TAX EXPENSE FOR WHICH ETI REQUESTS RECOVERY IN THIS PROCEEDING?

A. The Total ETI Adjusted amount of expense for this class of services is $2,014,643. The following table summarizes this information for the Income Tax Expense Class.

Table 1

		Total ETI Adjusted		
Class	**Total Billings**	**Amount**	**% Direct**	**% Allocated**
Income Tax Expense	$18,378,981	$2,014,643	0	100%

Q39. 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 Income Tax Expense Class. In my Exhibit SLW-A, the information is shown broken down by the departments comprising the class (where applicable). My Exhibit SLW-B shows the same information broken down by project code and the billing method assigned to each project code. My Exhibit SLW-C shows the information by class, department (where applicable), billing method, 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 ESL 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 ESL 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 Mr. Dumas.
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 Mr. Dumas.
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 his testimony, Mr. Dumas describes the calculations that take the dollars of support services in Column A to the Total ETI Adjusted numbers shown on Column H.

Q40. ARE THERE ANY PRO FORMA ADJUSTMENTS TO THIS CLASS?

A. Yes. The pro forma adjustments for this class are shown on Exhibit SLW-D, which also indicates the Company witnesses who sponsor those pro forma adjustments.

Q41. ON WHAT BASIS ARE THE AFFILIATE COSTS OF THIS CLASS OF SERVICE ALLOCATED?

A. Each class is made up of services that are charged to one or more project codes. As Mr. Dumas explains, only one billing method is assigned to each project code. Any organization performing work relating to a 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 price charged to other affiliates for the same or similar services and represents the actual costs of the service. Mr. Dumas's direct testimony provides a complete listing of billing methods, billing method numbers, project titles, descriptions, families, and percentages by affiliate company. As charges are incurred in this class, they are billed to the appropriate project code, allocated based on the applicable billing method, and then billed to each affiliate, including ETI.

A. Necessity

Q42. IS THE INCOME TAX EXPENSE CLASS NECESSARY?

A. Yes, it is. Income tax expense for ESL is a necessary expense. These taxes are imposed by law. If ESL did not satisfy its tax obligations, ESL would not be able to operate and provide all of the other classes of services to ETI that ETI requires in order to provide electric service to its customers.

B. Reasonableness

Q43. IS THE AMOUNT OF THE INCOME TAX EXPENSE CLASS OF SERVICES REASONABLE?

A. Yes. The Total ETI Adjusted amount of the ESL Income Tax Expense Class is reasonable. The amount is based on the calculations and payments dictated by applicable tax statutes.

Q44. PLEASE DESCRIBE HOW THE INCOME TAXES THAT ARE INCLUDED IN THIS CLASS ARE CALCULATED.

A. The Tax Services Department prepares and files the appropriate income tax returns in accordance with the laws of the jurisdictions in which ESL operates. This expense is then accrued over a twelve-month period in accordance with standard accounting practices.

Q45. UPON WHAT EVIDENCE DO YOU BASE YOUR OPINION THAT THE AMOUNT INCLUDED IN THE INCOME TAX EXPENSE CLASS OF SERVICE IS REASONABLE?

A. The amount included in the Income Tax Expense Class is reasonable because this amount represents the tax liabilities imposed by law.

C. Price Charged to ETI

Q46. HOW ARE THE COSTS OF ESL'S INCOME TAX EXPENSE CLASS BILLED TO ETI?

A. Exhibit SLW-B shows the costs included in this class by project code. The current portion of income tax expense costs associated with this class is captured and billed using Project Code F5PCZUITFS (Current Federal and State Income Tax). The deferred portion of income tax expense costs associated with this class are captured and billed using Project Code F5PCZUITNC (Deferred Federal and State Income Tax).

Q47. DOES ESL ALLOCATE THE COSTS OF THIS CLASS TO ETI?

A. Yes. While ESL attempts to direct bill costs to ETI and other affiliates whenever appropriate, instances exist when costs are incurred that benefit more than one Entergy affiliate. Such costs are therefore billed through an allocation. This is the case with the Income Tax Expense Class and, accordingly, ESL costs associated with this class are allocated to Entergy affiliates, including ETI, rather than being direct billed.

Q48. WHAT BILLING METHOD IS USED TO ALLOCATE THE ESL INCOME TAX EXPENSE TO THE VARIOUS ENTITIES THAT RECEIVE SERVICES FROM ESL?

A. Billing method LVLSVCAL (ESL Level of Service) is used to allocate this expense item to the various entities that receive services from ESL. This method is based on the level of ESL service (measured by total ESL billings) that an individual entity receives. For a detailed explanation of this predominant billing method and why it is appropriate for the project codes to which it is assigned, please refer to Exhibit SLW-5.

Q49. WHY IS ALLOCATION METHOD LVLSVCAL APPROPRIATE TO USE FOR THE TWO PROJECT CODES IN THIS CLASS OF SERVICE?

A. Income Tax Expense is an expense of ESL. This expense is incurred by ESL in order that it may provide services to Entergy Corp. and its affiliates. The driver of this cost is the services from ESL required by the legal entities, and allocation method LVLSVCAL reasonably reflects this cost driver. Thus, the price charged for this item is no higher than the price charged to other affiliates for this item and represents the item's actual cost.

VI. <u>TAX SERVICES CLASS OF AFFILIATE COSTS</u>

Q50. PLEASE DESCRIBE THE TAX SERVICES CLASS.

A. The Tax Services class consists of: (1) services provided by ESI's Tax Services Department and the costs associated with those services, and (2) the affiliate taxes other than income, which are addressed in more detail in my testimony. The Tax Services class of affiliate costs that I sponsor is included within the "Finance" Function of the "Corporate Support" Family as shown on my attached Exhibits SLW-2 and SLW-3.

This class of service includes a variety of tasks related to income tax, as well as state and local tax issues. The Tax Services Department is responsible for income tax accounting, reporting, and preparation and submittal of federal and state income tax returns, corporate franchise tax returns, and property, sales/use and excise tax filings. In addition, the Tax Services Department is responsible for management of the federal and state income and other state and local tax audits. Also included in this class are the tax planning services and associated costs of the Senior Vice President and General Tax Counsel.

The Tax Services Department is responsible for ensuring all of the tax filings and payments for ETI are made timely and accurately. Tax Services also performs any research necessary, in order to comply with various federal, state and local tax laws.

Q51. PLEASE DESCRIBE HOW ESL'S TAX SERVICES DEPARTMENT IS ORGANIZED.

A. The Tax Services function is centralized within ESL in order to realize economies of scale, to standardize the related processes, and to gain efficiencies. This single tax department is referred to as the Tax Services Department.

Q52. WHAT ARE THE TOTAL AFFILIATE CHARGES FOR THIS CLASS DURING THE TEST YEAR AND HOW MUCH OF THOSE COSTS WERE ALLOCATED TO ETI?

A. The Total ETI Adjusted amount for this class of services is $2,951,177, including Tax Services Department Charges of $2,216,204 and ESL Taxes Other Than Income in the total amount of $734,973. ESL directly billed 35.94% of the Total ETI Adjusted amount and allocated 64.06% of the amount to ETI. The following table summarizes this information for the Tax Services class.

Table 2

		Total ETI Adjusted		
Class	**Total Billings**	**Amount**	**% Direct**	**% Allocated**
Tax Services	$29,152,299	$2,951,177	35.94%	64.06%

Q53. WHAT ARE THE MAJOR COST COMPONENTS OF THE CHARGES FOR THE TAX SERVICES CLASS?

A. As shown on Exhibit SLW-A and further explained below, the total billings for the Tax Services class during the test year were $2,951,177. The major cost components of those costs are as follows:

Table 3

Cost Component	**Cost**	**% Of Total**
Payroll and Employee Costs	$1,546,499	52%
Other	$864,101	29%
Service Company Recipient	$223,813	8%
Outside Services	$248,926	8%
Office and Employee Expenses	$67,838	2%
Total	**$2,951,177**	**100%***

*Total may not foot due to rounding.

Q54. WHAT IS THE SIGNIFICANCE OF THESE COST CATEGORIES?

A. The costs shown in Table 3 comprise the Total ETI Adjusted amount for the Tax Services class. This breakout of costs provides an additional view of the components of the costs in my class. Other witnesses in this case may also provide indirect support for these costs because they address the corporate structures and practices that underlie these costs. For example, the table demonstrates that 52% of the costs in my class are for compensation and labor-related expenses (Payroll and Employee Costs). Jennifer A. Raeder discusses the reasonableness and necessity of the compensation programs included in these costs.

The cost component labeled “Other” in Table 3 is primarily due to ESL Taxes Other Than Income that has been allocated to ETI. Another substantial cost category is for “Service Company Recipient” costs, which are for services that ESL provides to itself, such as rent and indirect department costs for ESL functions. Those costs are then spread among all affiliates that receive ESL services. Mr. Dumas explains the service company recipient process.

"Outside Services" pertains to services provided to the Tax Services Department by non-Entergy employees and firms, such as outside consultants and vendors. My discussion of the necessity and reasonableness of the Tax Services class further addresses these costs.

"Office and Employee Expenses" covers the costs of maintaining workspaces, office supplies, business travel, etc. Workspaces and office supplies are primarily addressed by Dawn D. Renton, and Bobby Sperandeo supports the employee business travel and expense processes. Together, they provide secondary support for this category of costs in this class.

Q55. ARE THERE ANY PRO FORMA ADJUSTMENTS RELATED TO THIS CLASS?

A. Yes. The pro forma adjustments for this class are shown on Exhibit SLW-D, which also indicates the Company witnesses who sponsor those pro forma adjustments.

A. <u>Affiliate Taxes Other Than Income</u>

Q56. PLEASE DESCRIBE THE AFFILIATE TAXES OTHER THAN INCOME THAT YOU ARE SPONSORING.

A. As indicated above, the Tax Services class of affiliate costs, as reflected in my Exhibits SLW-A through SLW-D, includes taxes other than income that have been incurred by ESL and a portion of which have been allocated to ETI. In particular, $6,502,628 in Column (C) on Exhibit SLW-A represents the total amount of such taxes for ESL.

These taxes other than income include costs such as property taxes and excise taxes that ESL incurred in the test year. The ESL taxes are billed to the other Entergy Companies, including ETI, just as any other costs incurred by ESL. These taxes are included in ETI's taxes other than income reflected on Schedule G-9.

Q57. WHAT IS THE TOTAL AMOUNT OF ESL TAXES OTHER THAN INCOME FOR WHICH ETI REQUESTS RECOVERY IN THIS PROCEEDING?

A. The Total ETI Adjusted amount of taxes other than income charged to ETI is $734,973. Because of the nature of these items, all of these amounts charged to ETI were allocated to the Company.

1. <u>Necessity</u>

Q58. ARE THE EXPENSES RELATED TO ESL'S TAXES OTHER THAN INCOME NECESSARY?

A. Yes. They are. ESL Taxes Other Than Income are necessary expenses. These taxes are imposed by law. If ESL did not satisfy its tax obligations, ESL would not be able to operate and provide all of the other classes of services to ETI that ETI requires in order to provide electric service to its customers.

2. Reasonableness

Q59. ARE THE TAXES OTHER THAN INCOME EXPENSES REASONABLE?

A. Yes. The ESL Taxes Other Than Income expenses are reasonable. The total amount is based on the calculations dictated by applicable federal, state or local statutes and regulations. The amount of the taxes and fees included in the Tax Services class does not include any amounts (i.e., "mark-up") above the level of taxes and fees actually assessed to ESL.

3. Price Charged to ETI

Q60. HOW ARE THE COSTS OF ESL'S TAXES OTHER THAN INCOME BILLED TO ETI?

A. Exhibits SLW-B and SLW-C show the costs by project code. The costs associated with Taxes Other Than Income are captured and billed using Project Code F5PCZUTXOT (Taxes Other Than Income & Payroll). This project code uses billing method LVLSVCAL, which spreads costs among Entergy Companies based on ESL total billings to each company, excluding corporate overhead. It is used for the allocation of costs associated with support of ESL as a legal entity. ETI then books the amounts billed to it by ESL as part of its taxes other than income. Mr. Dumas explains how service company costs are spread among all affiliates that receive ESL services. Billing method LVLSVCAL is an appropriate billing method to use for these ESL tax costs because the costs are incurred as a result of ESL being a separate legal entity.

B. Tax Services Department Costs

1. Necessity

Q61. WHAT ARE THE TAX SERVICES DEPARTMENT COSTS INCLUDED IN THE TAX SERVICES CLASS OF AFFILIATE COSTS?

A. As indicated above, the Tax Services class of affiliate costs, as reflected in my Exhibits SLW-A through SLW-D, includes costs for Entergy's Tax Services Department. In particular, a total of $22,649,671 in Column (C) on Exhibit SLW-A represents these costs for ESL's total tax services activities. ETI's share of these support costs during the test year is $2,216,204.

Q62. ARE THE TAX SERVICES PROVIDED BY ENTERGY'S TAX SERVICES DEPARTMENT DESCRIBED ABOVE NECESSARY TO ETI?

A. Yes. The Tax Services Department provides services that allow ETI to meet its tax reporting obligations as well as expertise that supports the development of beneficial tax planning opportunities. ESL's Tax Services Department performs these services to ensure that ETI and other Entergy affiliates meet their tax compliance burden at the federal, state, and local level. Additionally, through tax strategy development and planning services, the Tax Services Department attempts to minimize the tax liability of Entergy Corporation and its subsidiaries in accordance with federal, state, and local statutes and regulations.

Q63. DESCRIBE THE TAX SERVICES DEPARTMENT.

A. The Tax Services Department is guided by the Senior Vice President and General Tax Counsel, who is responsible for all taxes for the Entergy Companies and who reports directly to the CFO. The Tax Services Department is a professional group comprised primarily of attorneys and accountants. At the end of the test year, the Tax Services Department had 79 employees.

The Tax Services Department provides services that can be divided into four main processes: accounting and compliance; reporting; management of audits; and planning.

More specifically, the Tax Services Department provides the following services to ETI:

- calculation of and recording monthly income tax accruals;
- preparation and filing of federal income tax returns and quarterly estimated payments;
- preparation and filing of state income and franchise tax returns;
- preparation of property tax filings and submission of property tax payments;
- preparation and filing of sales/use tax returns;
- preparation of miscellaneous tax filings;
- preparation of rate case support documentation;
- management of federal, state and local tax audits; and
- management of all tax controversies and litigation;

Additionally, the department also provides strategic corporate tax planning and business planning advice for all applicable taxes. The organization provides tax planning and business planning advice so that tax consequences are taken into account in the Company's decision making processes.

Q64. WHY ARE THE SERVICES PROVIDED BY THIS ORGANIZATION NECESSARY TO ETI?

A. The services of filing tax returns, remitting tax, and researching proper tax treatment of a transaction that are included in the Tax Services class are necessary because they are required either by federal, state, or local statutes, regulations, or ordinances, such as the Internal Revenue Code, the Texas Tax Code, Louisiana Revised Statutes, and numerous local ordinances and regulations.

The research and planning work performed by the Tax Services Department is necessary to file true and accurate tax returns and tax payments, as well as to legally minimize tax payments made. In this regard, the Tax Services Department plans for and analyzes the effect of federal and state tax laws, rulings, court decisions, regulations, Generally Accepted Accounting Principles, and regulations from orders and requirements of the Federal Energy Regulatory Commission and the Securities and Exchange Commission. This enables the Company to make informed business decisions while minimizing adverse tax consequences.

Q65. DO ETI RATEPAYERS BENEFIT FROM THE TAX SERVICES CLASS OF SERVICES?

A. Yes. ETI ratepayers benefit from these services. As indicated above, much of the work encompassed by this class is required by law. If tax returns and associated payments are not prepared and timely filed, ETI would be penalized by the jurisdictions to which ETI is obligated to pay those taxes. Further, because taxes are reflected in the cost of service, and therefore rates, ETI customers directly benefit from efforts to legally minimize those taxes.

2. Reasonableness

Q66. ARE THE COSTS ASSOCIATED WITH THE TAX SERVICES DEPARTMENT REASONABLE?

A. Yes. As explained in more detail below, they are.

a. External Comparison

Q67. HAVE YOU REVIEWED ANY EXTERNAL INFORMATION IN ASSESSING THE REASONABLENESS OF THE COSTS OF THE TAX SERVICES DEPARTMENT?

A. Yes, I have. Based my opinions, in part, on a comparison of Tax Services Department employee costs with the hourly charges of outside Tax Services Department consultants. For example, during 2021 the average hourly cost of the Tax Services Department's professional staff was approximately $99/hour. This compares favorably with the hourly charges of outside consultants that provided services to the Tax Services Department during 2021, which ranged from $162 to $1,750 per hour.[4]

[4] The Tax Services Department hires outside consultants to perform the same type of work that would be done by in-house professional staff were it not for time constraints and other considerations.

Q68. IS THERE ANY MORE GENERAL BENCHMARKING SUPPORT IN THE COMPANY'S FILING?

A. Yes. Although it does not apply explicitly to my class, Mr. Sperandeo and Mr. Dumas address benchmarking studies that apply to ETI's costs. Mr. Sperandeo addresses benchmarking applicable to ETI total company non-production O&M costs, and Mr. Dumas addresses benchmarking that applies at the service company (ESL) level.

b. <u>Outside Consultant Expense Monitoring</u>

Q69. DO THE TAX SERVICES DEPARTMENT COSTS INCLUDE CHARGES FROM OUTSIDE CONSULTANTS?

A. Yes. The Tax Services Department test year costs include approximately $248,926 for Outside Services, the majority of which is for professional services firms.

Q70. WHAT DRIVES THE NEED FOR EXPENDITURES FOR OUTSIDE CONSULTANTS?

A. The cost of outside consultants is driven by the level of protests and appeals for tax audits and controversies, the complexity of special projects and the need to obtain outside opinions to support tax return positions and transaction reviews.

Q71. IS THE LEVEL OF THE OUTSIDE CONSULTANT EXPENSE BUDGET MONITORED?

A. Yes. The actual expenditures are compared to those budgeted on a monthly basis. Any material variances are discussed with the Senior Vice President and General Tax Counsel.

Q72. ARE TAX SERVICES EMPLOYEES HELD ACCOUNTABLE FOR OUTSIDE CONSULTANT EXPENSES?

A. Yes. The Senior Vice President and General Tax Counsel is responsible for managing the outside consultant expense. To the extent that his direct reports engage outside consultants, those direct reports are accountable to him and must manage the costs of these outside consultants.

c. Cost Trends

Q73. WHAT WERE THE COSTS FOR THE TAX SERVICES CLASS FOR THE YEARS 2018-2020 AND THE TEST YEAR?

A. Total affiliate O&M charges to ETI for each of the past three calendar years and the test year for this class of services are shown in the table below. The amounts include Tax Services Department costs and ESL Taxes Other Than Income.

2018	2019	2020	Test Year
$2,097,238	$2,778,309	$2,983,148	$2,951,177

These cost trends have been adjusted to remove Corporate Aviation costs, Nuclear and Gas department costs, and other non-ratemaking items.

Q74. WHAT DOES THE COST TREND TABLE INDICATE?

A. The cost trend table shows that the total affiliate O&M costs for the Test Year were slightly lower than the amount incurred in 2020, but higher than the amounts incurred in 2018 and 2019. The increases from 2018 and 2019 to the Test Year are primarily due to affiliate tax services, outside tax services, and property taxes. Affiliate and outside tax services increased mainly due to the need to support tax positions related to ETI tax returns and property taxes increased due to increased tax assessments.

d. <u>Cost Control and Improvement Initiatives</u>

Q75. SEPARATE FROM THE BUDGETING PROCESS, DOES THE TAX SERVICES DEPARTMENT UNDERTAKE OTHER MEASURES OR INITIATIVES TO CONTROL COSTS OR IMPROVE ITS SERVICES?

A. Yes. In addition to ensuring that all companies meet their legally mandated compliance and tax payment responsibilities, the Tax Services Department provides advice to other parts of the business that result in minimization of tax liabilities. Potential acquisitions, utility plant constructions, and other types of transactions are reviewed for tax savings or tax credit opportunities. Such opportunities can include utilization of sales/use tax exemptions and income/franchise tax credits. While these tax savings do not represent a decrease in the cost of tax services, they do provide economic value to the companies and reduce overall costs for the benefit of ratepayers.

Q76. DOES ETI HAVE ANY GROUP THAT HAS RESPONSIBILITIES IDENTICAL OR SIMILAR TO THOSE OF THE ESL TAX SERVICES DEPARTMENT?

A. No. The Tax Services Department provides all of the tax services that ETI requires.

Q77. IS THERE ANY DUPLICATION OF THESE SERVICES WITHIN ESL?

A. No. There is no duplication of these services within ESL. The Tax Services Department provides tax services, to Entergy Corporation and its affiliates.

Q78. PLEASE SUMMARIZE THE EVIDENCE THAT THE COST OF THE TAX SERVICES DEPARTMENT IS REASONABLE.

A. I have discussed the need for the services provided. I have also described cost and staffing trends, as well as our cost-control initiatives, to demonstrate the reasonableness of the costs allocated to ETI. All of this evidence demonstrates that the costs of the Tax Services Department are reasonable.

3. Price Charged to ETI

Q79. HOW ARE COSTS OF THE TAX SERVICES DEPARTMENT BILLED TO ETI?

A. As described by Mr. Dumas, costs are captured in project codes. Each project code has an assigned billing method that is used to bill costs to the appropriate legal entity.

Q80. DOES ESL ALLOCATE A PORTION OF THE COSTS TO ETI?

A. Yes. When appropriate, costs are direct billed to ETI and other affiliates. However, when costs that benefit more than one of the Entergy Companies are incurred, such costs are billed through an allocation.

Q81. ON WHAT BASIS ARE THE AFFILIATE COSTS OF THIS CLASS OF SERVICE ALLOCATED?

A. Each class is made up of services that are charged to one or more project codes. As Mr. Dumas explains, only one billing method is assigned to each project code. Any organization performing work relating to a project code will bill to that project code, but the billing method for that project code remains the same regardless of the organization that is billing the charges. 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 price charged to other affiliates for the same or similar services and represents the actual costs of the service. Mr. Dumas's direct testimony provides a complete listing of Entergy billing methods, billing method numbers, project titles, descriptions, families, and percentages by affiliate company. As charges are incurred in this affiliate class of service, they are billed to the appropriate project code, allocated based upon the applicable billing method, and then billed to the appropriate affiliates, including ETI.

Q82. WHAT WERE THE PREDOMINANT BILLING METHODS USED FOR THE TAX SERVICES CLASS OF SERVICES?

A. For the test year, the predominant billing methods were ASSTSALL, DIRECTTX, and LVLSVCAL. These three billing methods were used for 93% of the costs billed to ETI by ESL.

These billing methods are appropriate because they are based on cost causation principles. For a detailed explanation of these predominant billing methods and why they are appropriate for the project codes to which they are assigned, please refer to Exhibit SLW-6.

Q83. YOU HAVE ADDRESSED 93% OF THE TOTAL ETI ADJUSTED COSTS ASSOCIATED WITH THIS CLASS. PLEASE ADDRESS THE REMAINING 7%.

A. A number of other project codes and different billing methods were used for the remaining 7% of such costs. The remaining billing methods are set forth in my Exhibit SLW-B.

Q84. HAVE YOU DETERMINED THAT THE APPROPRIATE PROJECT CODES AND BILLING METHODS HAVE BEEN USED FOR THE REMAINING 7% OF TOTAL ETI ADJUSTED COSTS ASSOCIATED WITH THIS CLASS?

A. Yes. I have reviewed each of the project codes and associated billing methods used for the remaining 7% 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 the services.

VII. CONCLUSION

Q85. PLEASE STATE YOUR CONCLUSIONS.

A. I have accurately demonstrated why it is appropriate for the Commission to approve Rider DTA as it did in Docket No. 39896 because the Company is required to include its FIN 48 ADIT in rate base even though it is not cost-free capital. I have also demonstrated that the Company's adjusted per books test year Federal Income Tax amounts found in the G-7 schedules and included in ETI's requested cost of service are calculated and presented in accordance with PURA and the Commission's Substantive Rules. Additionally, I have discussed the Income Tax Expense Class and the Tax Services Class of affiliate services, which includes the ESL Tax Services Department and Affiliate Taxes Other Than Income Taxes. I have shown that these classes of service are necessary and that their associated costs are reasonable. In addition, I have demonstrated that the prices charged to ETI for ESL Income Tax Expense, Tax Services, and Taxes Other Than Income Taxes are no higher than the prices charged to other affiliates for the same or similar items and represents the actual cost of these items.

Q86. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

AFFIDAVIT OF STACEY L. WHALEY

THE STATE OF LOUISIANA

PARISH OF Orleans

This day, Stacey L. Whaley the affiant, appeared in person before me, a notary public, who knows the affiant to be the person whose signature appears below. The affiant stated under oath:

My name is Stacey L. Whaley. I am of legal age and a resident of the State of Louisiana. The foregoing testimony and exhibits offered by me are true and correct, and the opinions stated therein are, to the best of my knowledge and belief, accurate, true and correct.

Stacey L. Whaley

Stacey L. Whaley

SUBSCRIBED AND SWORN TO BEFORE ME, notary public, on this the 13th day of June 2022.

Notary Public, State of Louisiana

My Commission expires:
At death

ALAN JAY SIMMONS JR
Notary Public - Louisiana
Jefferson Parish
Notary ID 178351