Companies, for ESL, EOI, EEI, and ENOI.

Q6. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

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

<u>Affiliate Case Layout</u>: In the Affiliate Case Layout section of my testimony, I describe how affiliate charges to ETI have been organized into classes, explain how the affiliate case is organized and how it ties to the G-6 schedules and a supporting set of workpapers,[4] and introduce the other affiliate witnesses. I describe how the information in this filing is presented for the purpose of showing:

- affiliate costs charged to ETI are necessary;
- affiliate costs charged to ETI are reasonable;
- the prices charged to ETI for each class of items are no higher than the prices charged to other Entergy affiliates, or to non-affiliates, for the same or similar class of items; and

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

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

- the allocated amounts represent the actual cost of services to ETI.

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

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

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

a) provide background information regarding Entergy and its regulated and non-regulated companies;

b) describe the affiliate billing process, including discussions regarding project billings, loaned resource billings, and controls;

c) discuss the ESL service billings, including an overview of the ESL billing process, a summary of ESL charges to affiliated companies, the service company recipient allocation process, billing methods, and allocation rates and statistics;

d) discuss affiliate billings to ETI during the test year; and

e) describe the pro forma adjustments associated with the affiliate billings to

ETI included in this filing and discuss those pro forma adjustments that I sponsor.

In addition to the overview of affiliates charges, I sponsor three specific classes of affiliate costs: (1) Depreciation (which pertains to depreciation and amortization of ESL assets used in providing services); (2) Service Company Recipient Offsets (sometimes referred to as "Shared Services Loader Offsets"); and (3) Other Expenses.

Q7. WHAT EXHIBITS ARE YOU INCLUDING AS PART OF YOUR TESTIMONY?

A. The exhibits that I am including as part of my testimony appear in the list following the Table of Contents.

Q8. DO YOU SPONSOR OR CO-SPONSOR ANY SCHEDULES IN THE RATE FILING PACKAGE?

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

- Schedule G-6
- Schedule G-6.1
- Schedule G-6.2

I am also co-sponsoring a set of workpapers included in support of Schedule G-6 of the RFP.

These schedules and the supporting set of workpapers were reviewed or prepared by me or under my direct supervision.

Q9. ON WHAT BASIS WERE THE SCHEDULES THAT YOU JUST MENTIONED PREPARED?

A. They were prepared from the books and records of ESL and its affiliates and are accurate summaries of the business records on which they are based.

Q10. WHAT TEST YEAR IS ETI USING IN THIS FILING?

A. The test year in this case is the 12 months ending December 31, 2021 ("Test Year").

Q11. WHAT IS THE DOLLAR AMOUNT OF AFFILIATE CHARGES THAT ETI HAS INCLUDED IN THE TEST YEAR COST OF SERVICE?

A. RFP Schedule G-6 shows that the Company's "Total ETI Adjusted" amount for affiliate charges for the Test Year is $107,994,044.

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

Q12. WHAT TYPE OF SYSTEM DO THE ENTERGY COMPANIES USE TO CAPTURE COSTS?

A. Entergy uses a project costing application (PowerPlan) that provides a single point of entry for all Project Codes ("PC"). A PC is an alpha numeric code that is assigned to individual projects established within organizations (also referred to as "departments"). Each PC is applicable to a specific assignment or activity. For example, a PC would be assigned to a project to develop a specific software application, a specific construction project, an employee training project, or any of a myriad of activities that are necessary to run a utility.

## II. BACKGROUND INFORMATION REGARDING ENTERGY CORPORATION AND ITS SUBSIDIARIES

Q13. PLEASE BRIEFLY DESCRIBE ENTERGY CORPORATION.

A. Entergy Corporation owns both regulated and nonregulated companies. Exhibit RMD-2 provides a detailed discussion of Entergy Corporation subsidiaries. Exhibit RMD-3 is an organization chart for Entergy Corporation and its subsidiaries, including both regulated and direct nonregulated companies, as of December 31, 2021.

Q14. PLEASE BRIEFLY DESCRIBE THE REGULATED SUBSIDIARIES OWNED BY ENTERGY CORPORATION.

A. Entergy Corporation owns, directly or indirectly, all of the outstanding common stock or common membership interests of five retail Operating Company subsidiaries: ETI, EAL, ELL, EML, and ENO. As of December 31, 2021, these Operating Companies provided electric service to approximately 2.9 million customers in the states of Arkansas, Louisiana, Mississippi, and Texas.

Entergy Corporation also owns all of the outstanding common stock of System Energy, ESL, and EOI, which are regulated by the Nuclear Regulatory Commission ("NRC") and/or FERC. System Energy owns a 90% interest in the Grand Gulf Nuclear Station ("Grand Gulf") and sells the generating capacity and energy from Grand Gulf at wholesale to its only customers, which are EAL, ELL, EML, and ENO. ESL is a service company subsidiary of Entergy Corporation that provides general executive, management, advisory, administrative, human resources, accounting, finance, legal, regulatory, and engineering services to ETI and Entergy Corporation affiliates, including the other Operating Companies.

EOI is a service company subsidiary that provides nuclear management and operations and maintenance services to Entergy's regulated nuclear plants, which are Arkansas Nuclear One, River Bend Nuclear Power Station, Waterford III Steam Electric Station, and Grand Gulf. These plants are owned by EAL, ELL, and System Energy, respectively, and are operated by EOI.

Q15. PLEASE PROVIDE AN OVERVIEW OF ENTERGY'S NON-REGULATED SUBSIDIARIES.

A. Entergy's nonregulated subsidiaries include, among others, EEI, Entergy Power, LLC ("EPL"), a wholesale power producer, and ENOI, a service company established to provide nuclear management and operations services to Entergy's nonregulated nuclear plants. For a more detailed discussion of Entergy's direct nonregulated affiliates, please refer to Exhibit RMD-2.

Q16. FROM WHICH OF THE ENTERGY SUBSIDIARIES DOES ETI RECEIVE THE MOST SIGNIFICANT LEVEL OF AFFILIATE CHARGES?

A. ETI receives the most significant level of affiliate charges from ESL. In addition to affiliate charges from ESL, ETI receives charges from the other Operating Companies.

Q17. WHY IS ESL THE SOURCE OF MOST OF ETI'S AFFILIATE CHARGES?

A. Centralization of activities through the creation of service companies results in economies of scale and provides a pool of centralized expertise for Entergy's regulated utility affiliates. As noted previously, ESL, EOI, EEI, and ENOI are the four primary service companies. EOI provides services to Entergy's regulated nuclear plants, and EEI and ENOI provide services to nonregulated affiliates, as more fully described in Exhibit RMD-2. I provide an overview of the services provided by ESL.

Q18. PLEASE DESCRIBE THE PURPOSE AND FUNCTION OF ESL.

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

Q19. WHAT TYPES OF SERVICES DOES ESL PROVIDE?

A. As mentioned earlier in my testimony, the services ESL provides to its affiliates include general executive, management, advisory, administrative, human resources, accounting, finance, legal, regulatory, and engineering services. These services are provided pursuant to Service Agreements between ESL and the respective affiliates to which it provides services. The Service Agreements between ESL and its affiliates are included as Exhibits RMD-4A through RMD-4P. These Service Agreements outline the general types of services that ESL provides.

ESL provides services according to functional groupings that reflect the way ESL is organized. These groupings are reflected in the presentation of ETI's affiliate expenses in this filing and represent a compilation of the services that are provided to ETI by ESL.

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

Q20. IS THE SERVICE AGREEMENT BETWEEN ESL AND ETI DIFFERENT IN SUBSTANCE FROM THE SERVICE AGREEMENTS ESL HAS WITH THE OTHER AFFILIATED COMPANIES?

A. No. The service agreements between ESL and the other Operating Companies are the same, although the types and amounts of services may vary among these companies.

Q21. ARE ALL NONREGULATED ENTERGY COMPANIES PARTIES TO SERVICE AGREEMENTS WITH ESL?

A. No. ESL does not directly provide services to all of the non-regulated affiliates. ESL, however, does provide services directly to EPL and EEI, and has service agreements with these two non-regulated companies. When ESL provides services to EEI, the provision of these services is often the result of a request for services made by a non-regulated company to EEI. When that situation arises, the billing for that service is made by ESL to EEI and, in turn, EEI bills the nonregulated company for the service. As shown on Exhibit RMD-8, total ESL billings to EPL and EEI were .06% and 4.59%, respectively, of ESL's total billings to all affiliates during the Test Year.[5] ESL billings to all affiliates, including EPL and EEI, for 2019 to 2021 are shown on Exhibit RMD-9.

[5] Exhibit RMD-8 includes a schedule of ESL billings to affiliates during the Test Year.

Q22. WHAT TYPES OF SERVICES ARE PROVIDED BY ESL TO THE NONREGULATED AFFILIATES THROUGH EEI?

A. Although ESL was formed to primarily serve regulated utility operations, there are three general categories of services that ESL provides to the nonregulated companies through EEI. The first type of services provided by ESL through EEI are those provided solely to EEI or a nonregulated affiliate. For instance, ESL provides services with regard to specific nonroutine projects, tax issues, legal issues, or accounting issues directly associated with EEI or a nonregulated affiliate. These costs are billed 100% to EEI.

The second type of services provided by ESL through EEI is the type of services that concurrently are used by both the regulated and nonregulated Entergy affiliates. For example, nonregulated companies participate in certain human resources, benefits, accounts payable, communications, and support services also provided to the regulated companies. These costs are allocated to EEI based on EEI's allocable share of the assigned billing method. The billing method applied to the project codes applicable to these services ensures that EEI is billed for the applicable share of the allocated costs.

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

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

Q23. DOES ESL PROVIDE ANY SERVICES TO THE REGULATED OR NONREGULATED COMPANIES FREE OF CHARGE OR AT A DISCOUNT?

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

## III. <u>AFFILIATE TRANSACTION REGULATION</u>

Q24. ARE YOU FAMILIAR WITH THE STANDARDS USED BY THE COMMISSION TO DETERMINE THE REASONABLENESS OF EXPENSES ASSOCIATED WITH AFFILIATE TRANSACTIONS AND THE ELIGIBILITY OF SUCH EXPENSES FOR INCLUSION IN COST OF SERVICE?

A. Yes. I am not an attorney, but part of my job responsibility is to be familiar with the legal standards (rules, statutes, and court cases) governing affiliate transactions and cost recovery in Commission proceedings. Section 36.058 of the Public Utility Regulatory Act ("PURA") and *Railroad Commission of Texas v. Rio Grande Valley*

*Gas Company*[6] set forth the affiliate standard applicable to Commission rate proceedings. This standard involves a four-part-inquiry that addresses: (1) the necessity of the affiliate services on a class of items basis; (2) the reasonableness of the costs related to the class; (3) the compliance with the "no higher than" standard, which requires that the price for the same or similar services provided be no higher for one affiliate or non-affiliated person than for another affiliate or non-affiliated-person;[7] and (4) whether the price charged reasonably approximates (or represents) the actual cost of the services.

Q25. ARE YOU FAMILIAR WITH THE REQUIREMENTS OF SUB-SECTION (F) OF PURA SECTION 36.058?

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

Q26. DOES THE COMMISSION'S RATE FILING PACKAGE APPLICABLE TO ETI PROVIDE ANY GUIDANCE REGARDING HOW TO DEMONSTRATE THE REASONABLENESS AND NECESSITY OF AFFILIATE CHARGES?

A. No. ETI is required to use, and is using for this case, the Electric Utility Rate Filing

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[6] 683 S.W.2d 783 (Tex. App.—Austin 1984, no writ).

[7] ESL does not provide services to non-affiliated entities.

Package for Generating Utilities (Sept. 9, 1992). This is the RFP for fully bundled electric utilities such as ETI. Section V of the Commission's RFP for unbundled transmission and distribution utilities,[8] however, provides a set of "guiding principles" with illustrative types of evidence that may be used to support the affiliate charges, including historical cost trends, process improvements, benchmarking, outsourcing, third-party reviews, operating statistics, and other metrics. These guiding principles are not, strictly speaking, applicable to this case because ETI is not an "unbundled" transmission and distribution utility. Nonetheless, each ETI affiliate witness has relied upon these guiding principles to marshal the evidence to support his or her affiliate costs.

Q27. HOW DO THE AFFILIATE COSTS INCLUDED IN THE COMPANY'S REVENUE REQUIREMENT COMPLY WITH APPLICABLE STANDARDS IN TEXAS STATUTES AND RULES?

A. Each affiliate cost witness sponsors testimony supporting his or her specific affiliate classes. Their testimony, in conjunction with my testimony, demonstrates that the affiliate costs meet the standards I describe above for recovery of affiliate charges. In addition, Beverley Gale, Melanie Taylor, Paula Waters, Khamsune Vongkhamchanh, and Bobby Sperandeo, among others, present additional support by demonstrating the reasonableness of various components of ETI's costs from a benchmarking perspective. Other witnesses support the reasonableness of

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8 Investor Owned Utility Transmission & Distribution Cost of Service Rate Filing Package (Nov. 19, 2015).

categories of costs that are included in ETI's affiliate Test Year costs, such as compensation and benefits (by Jennifer A. Raeder) and the supplies and acquisition processes (by Dawn D. Renton).

Q28. WHAT OTHER REGULATORY REQUIREMENTS REGARDING AFFILIATE TRANSACTIONS ARE RELEVANT TO A REVIEW OF AFFILIATE TRANSACTIONS?

A. I understand that prior to February 8, 2006, Entergy Corporation was a holding company registered under the Public Utility Holding Company Act of 1935 ("PUHCA 1935") and, therefore, was subject to the oversight of the SEC. ESL, which is a service company established in accordance with PUHCA 1935, was subject to regulation by the SEC. Effective February 8, 2006, pursuant to the Energy Policy Act of 2005 ("EPAct 2005"), PUHCA 1935 was repealed and the PUHCA 2005 was enacted. Section 1275(b) of EPAct 2005 provides that:

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

Q29. WHAT REGULATIONS HAS FERC ISSUED RELATED TO SERVICE COMPANIES TO REPLACE THE SEC REGULATIONS?

A. On December 8, 2005, FERC issued Order No. 667, which added Part 366 to its regulations to implement the repeal of PUHCA 1935 and the enactment of PUHCA

2005. Under the definitions provided in the PUHCA 2005 regulations, ESL is a "service company" in that it was organized specifically for the purpose of providing nonpower goods or services to a "public utility" within the same holding company system. Each of the Operating Companies is a "public utility" as defined in the PUHCA 2005 regulations. The PUHCA 2005 regulations also include Section 366.5, which essentially mirrors the language of Section 1275(b) of the EPAct 2005 and adds that "[s]uch election to have the [FERC] review and authorize cost allocations shall remain in effect until further [FERC] order."

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

On February 21, 2008, FERC issued Order No. 707, "Cross-Subsidization Restrictions on Affiliate Transactions." This order codified, among other things, FERC requirements for the pricing of non-power goods and services provided by a service company and between other affiliates. On July 17, 2008, FERC issued Order No. 707-A, "Order on Rehearing." This order granted rehearing and clarification, in part, of Order No. 707.

Q30. WHAT ARE THE FERC REQUIREMENTS FOR THE PRICING OF NON-POWER GOODS AND SERVICES PROVIDED BY A SERVICE COMPANY?

A. FERC Order Nos. 667 and 667A allowed traditional, centralized service companies that previously used the SEC's "at cost" standard for the pricing of sales of nonfuel, nonpower goods and services to FERC jurisdictional utilities to continue to use that "at cost" standard. (The "at cost" standard means, as I understand it, that the cost of the services does not include a component of profit.) Further, in its Order Nos. 667 and 667A, FERC indicated that "at cost" pricing of nonpower goods and services provided by centralized service companies such as ESL to associate public utilities is presumed to be reasonable. Specifically, in Order No. 667 FERC stated:

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

FERC Order Nos. 707 and 707-A prohibit, among other things, a franchised public utility with "captive customers" from receiving non-power goods and services from a centralized service company at a price above cost. This "at cost" pricing requirement for service company billings is consistent with previous FERC and SEC requirements. ESL is in compliance with the pricing requirements of FERC Order Nos. 707 and 707-A. ESL's compliance with FERC's "at cost" requirement helps to ensure that ESL affiliate costs charged to ETI are reasonable.

Q31. DID ENTERGY REQUEST A REVIEW OF COST ALLOCATIONS BY FERC FOLLOWING THE ENACTMENT OF PUHCA 2005?

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

Q32. DID FERC ISSUE AN ORDER IN CONNECTION WITH THE ENTERGY COMPANIES' FILING IN THIS MATTER?

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

Q33. DOES PUHCA 2005 CONTAIN ANY PROCEDURES FOR CHANGING COST ALLOCATIONS REVIEWED AND ACCEPTED BY FERC?

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

Q34. WHAT UPDATES TO ITS SERVICE AGREEMENTS HAS ESL FILED WITH THE FERC?

A. Yes. Effective December 19, 2013, ESL updated all of its service agreements for modifications to its methods of cost allocation. In addition, in anticipation of changes to the Entergy System Agreement ("System Agreement") on May 24, 2013, as supplemented and amended on June 13, 2013, and October 22, 2013, ESL filed updated versions of its service agreements with FERC. The updated service agreements reflected that EAL had tendered notice to the other Operating Companies of its intention to withdraw from the System Agreement. In this regard, ESL updated its service agreements with the Operating Companies to reflect changes in the scope of services it would provide to the Operating Companies following the withdrawal of EAL from participation in the System Agreement. On December 18, 2013, FERC issued an order, effective December 19, 2013, accepting the updated service agreements, including the modifications to ESL's methods of cost allocation referenced above. On December 24, 2015, ESL submitted, on behalf of ELL a Sixth Amended Interim Agreement for Continuation of Transmission Service Arrangements for Industrial Participant Load between Sam Rayburn Municipal Power Agency and Entergy Louisiana. On February 18, 2016, FERC issued an order accepting the agreement effective January 31, 2016. On March 31, 2016, ESL submitted for filing a Notice of Termination of the ESL Service Agreement for Generation Planning and Operational Support Services. On June 21, 2016, FERC issued an order accepting the Notice of Termination. Ultimately, in 2016, the System Agreement terminated as to all of the remaining Operating Companies. ESL updated its service agreements for those Operating Companies. On August 31, 2016, FERC issued an order, accepting the updated service agreements. On October 30, 2018, ESL submitted for filing a Notice of Succession pursuant to which ESL notified the FERC of its change in name from Entergy Services, Inc. ("ESI") and succeeded to the rate schedules on file with FERC in ESI's name. ESL submitted updated versions of its rate schedules reflecting its name change in its eTariff database. On December 19, 2018, FERC issued an order, accepting the filing. These FERC orders are included in Exhibits RMD-10B through 10F.

Q35. HAVE THERE BEEN ANY MODIFICATIONS TO THE ENTERGY COMPANIES' COST ALLOCATION FORMULAS SINCE THE COMPANY'S LAST COMPLETED BASE RATE CASE FILING THAT REQUIRED FERC REVIEW?

A. No.

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

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

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

A. Yes. As noted above, FERC, under the authority of PUHCA 2005, is authorized to periodically conduct audits of service companies. These service company audits include an examination of each service companies' compliance with cross subsidization restrictions on affiliate transactions at 18 C.F.R. Part 35, accounting, recordkeeping, and reporting requirements at 18 C.F.R. Part 366, compliance with FERC USoA for centralized service companies at 18 C.F.R. Part 367, and preservation of records requirements for service companies at 18 C.F.R. Part 368. During the most recent FERC audit of Entergy's four service companies, including ESL, covering the period January 2006 through December 2008, FERC tested for compliance with the aforementioned regulations by conducting tests of the service companies' cost allocations and the charges billed by the service companies. FERC reviewed and tested the supporting details for the service companies' cost allocation methodologies, tested the centralized service companies' costs and accounting, and reviewed selected service companies' billings and the corresponding associated franchised public utilities' accounting for the billings. FERC letter order dated

December 9, 2009 in connection with this audit found there were no significant deficiencies related to the allocation methodologies, accounting, or pricing of service company transactions.[9]

## IV. AFFILIATE CASE LAYOUT

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

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

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

A. The Company's cost of providing services includes both costs incurred directly by the Company and affiliate charges. As discussed earlier, the Commission determines the eligibility of affiliate costs for recovery in rates based on the standards required by law. The Company has presented its affiliate information in a manner consistent with recent ETI rate cases that will permit the Commission to review its affiliate costs for compliance with the affiliate standard. The affiliate

[9] Exhibit RMD-10F includes the FERC letter order dated December 9, 2009.

costs are a component of the rates the Company is requesting to implement in this docket.

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

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

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

A. Yes. Within each of these families are more discrete functions or service categories. Thus, for example, as shown in Exhibit RMD-6, entitled "Families and Functions," the "Operations" family (shorthand for Utility Operations Group) is comprised of traditional utility functions such as Generation, Transmission, Distribution, and Customer Service.

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

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

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

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

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

A. Affiliate services provided to ETI are grouped into 24 classes of items in the Company's filing. Exhibit RMD-5 shows the functions composing each family as well as the classes that make up each function. Thus, for example, Exhibit RMD-5 shows that there are 5 functions within the Corporate Support family. Below each function are the classes that compose that function and the name of the witness who sponsors that affiliate class of services. This exhibit also shows the Total ETI Adjusted amount for each class of affiliate services. Thus, for example, the Financial Services class, which is sponsored by Mr. Sperandeo, is in the Finance function. This exhibit does not include the level of Test Year affiliate charges for capital additions.

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

A. Although the testimony of each of the affiliate witnesses varies depending on

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

subject matter, there are certain common elements that I will explain. Each witness who sponsors a class of services describes why those services are necessary; explains why the costs of those services are reasonable; discusses the billing methods used to ensure that prices paid by ETI are no higher than the prices paid by other Entergy affiliates for the same or similar services; and also explains that the costs paid by ETI represent the actual costs of the services provided.

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

A. Yes. Each affiliate witness sponsors key affiliate cost related exhibits that are designated by letters (i.e., A, B, C, D) instead of numbers. For ease of reference, I will refer to them as Exhibits A, B, C, and D. For example, the affiliate cost exhibits supporting Mr. Sperandeo's testimony are labeled Exhibits BRS-A, BRS-B, BRS-C, and BRS-D. These exhibits present the cost of affiliate services in various levels of detail for each class of services included in Schedule G-6 of the Company's RFP. For each class of services sponsored by the witness, Exhibits A, B and C include all affiliate billings that originate at ESL, billings to ETI from the other Operating Companies (EAL, ELL, EML, or ENO), and billings to ETI from other affiliates. In addition, Exhibit D contains information about Test Year pro forma adjustments, if any, affecting each class of services sponsored by the witness. For the convenience of the parties, I have included my Exhibits RMD-A, RMD-B, RMD-C, and RMD-D, which are compilations of all witnesses' Exhibits A, B, C, and D, respectively.

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

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

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

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

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

A. Yes. Exhibit RMD-11, entitled "Affiliate Billing Exclusions by Class," shows by function and by class all exclusions from ETI's Test Year affiliate expenses for the Corporate Support family and the Operations family. As shown in this exhibit, Test

Year exclusions totaled approximately $90 million. Exclusions include amounts charged to FERC USoA capital accounts (FERC accounts 107 to 108); other balance sheet accounts (FERC accounts 154 to 253); interest accounts (FERC accounts 430 to 432); and below-the-line accounts (FERC accounts 419 to 428100). With the exception of amounts charged to certain capital accounts, these exclusions are made in order to arrive at a total cost amount that does not include costs that may not be recovered in rates, such as expenses prohibited from being included in rates by Texas law. Amounts included in the exclusions category do not represent pro forma adjustments.

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

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

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

A. Exhibit B is entitled, "Affiliate Billings – by Witness, Class and Project." Exhibit B shows for each class of services sponsored by that witness the amounts by PC for the Test Year. The information presented in Exhibit B permits the reader to examine the following: which PCs were charged within each class of services; which billing method was used; and the amounts included in Test Year costs for each PC within the class. From here, the reviewer can, in turn, refer to the Project Summaries included as Exhibit RMD-E for additional detail concerning each PC included in each class within the Company's filing. I discuss the information presented in the Project Summaries in greater detail later in my testimony.

Q52. PLEASE DESCRIBE EXHIBIT C.

A. Exhibit C, which is entitled "Affiliate Billings – by Witness, Class, Department and Project," is a combination of Exhibits A and B. This additional sort or view of the data, by department, billing method, and project, allows the reviewer to determine which department charged a particular PC for the particular services. For example, Mr. Sperandeo's Exhibit BRS-B allows the reviewer to trace a total of $73,754 Total ETI Adjusted Test Year amount, including pro forma adjustments, to the Financial Services Class billings to the "F3PCF23442" project code. Exhibit BRS-C further shows that these services were performed by billing departments CP236 (Sales and Load Forecasting), FA272 (Payroll), FN2RE (Accounting Governance & Controls) and SSFNO (SS Finance Ops).[11]

Q53. PLEASE DESCRIBE EXHIBIT D.

A. Exhibit D, entitled "Affiliate Billings – Pro Forma Summary – by Witness, Class and Pro Forma," contains information about Test Year pro forma adjustments affecting the class or classes that a particular witness sponsors. The witnesses'

[11] Workpaper WP/RMD-2 provides the department descriptions for each department code.

Exhibit D shows the billing entity of the transaction, includes the activity/project code and related ESL billing method for each adjustment, contains the FERC account for each adjustment, assigns the adjustment an identifying number, contains a brief description of the nature of the pro forma adjustment, shows which witness supports the pro forma adjustment, and presents the amount of the pro forma that is included in the "Total" column of Schedule G-6.2.

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

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

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

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

A. Yes. Although the Company believes that the level of detail that it has provided in this filing is more than sufficient to enable the Commission to evaluate the

Company's affiliate costs, the Company recognizes that it may be difficult for a reviewer to recall the type of information that is provided in each column of each of these exhibits. For this reason, I have included in my testimony as Exhibits RMD-B.1, RMD-C.1, and RMD-D.1 "roadmaps" that show what question is answered by each column in each exhibit, similar to "roadmap" Exhibit RMD-A.1 that I described earlier.

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

A. No. My Exhibits RMD-A, RMD-B, RMD-C, and RMD-D are an aggregation of all the Exhibits A, B, C, and D for each affiliate witness in the Company's case. Although the affiliate witnesses have attached their Exhibits A, B, C, and D to their direct testimony, it may be more convenient for the reviewer to have a single copy of all these exhibits in one place to facilitate review of the Company's filing. I am a co-sponsor of these exhibits because these cost exhibits include the classes of costs I sponsor (that is, the Depreciation, Service Company Recipient Offsets, and the Other Expenses classes), the exclusions and pro forma adjustments to the Test Year affiliate charges for all classes of costs, and the application of the cost allocation methods to the PCs.

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

A. Yes. I have prepared a set of workpapers, which is in addition to the required FERC account presentation contained in Schedules G-6, G-6.1 and G-6.2. The Company is providing this information in its direct filing in this case to facilitate an efficient, timely review of the Company's affiliate case.

Q58. PLEASE DESCRIBE THE SET OF SUPPORTING WORKPAPERS THAT THE COMPANY HAS PREPARED IN CONNECTION WITH ITS SCHEDULES G-6, G-6.1, AND G-6.2.

A. The set of workpapers that supports Schedules G-6, G-6.1, and G-6.2 details affiliate billings by billing entity to ETI by class, by FERC account, activity/project code, and billing method.

Q59. WHAT IS THE RELATIONSHIP BETWEEN EXHIBITS A, B, C, AND D AND THE COMPANY'S G-6 SCHEDULES?

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

1) Schedule G-6 – Total ETI Adjusted amount of affiliate billings,
2) Schedule G-6.1 – total per books affiliate billings (after exclusions), and
3) Schedule G-6.2 – pro forma adjustments to affiliate billings.

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

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

Q60. PLEASE EXPLAIN HOW ONE WOULD GET FROM YOUR COST EXHIBITS TO THE G-6 SCHEDULES.

A. The same process I will describe below can be used for any of the Exhibits A through C. I will use as an example my Depreciation Affiliate Class, which can be found on Exhibit RMD-A. To trace the data into the G-6 schedules, one would first need to obtain the subtotals of the class by billing entity. The subtotal in Column H (Total ETI Adjusted) of $3,494,387 for billing entity ESL agrees with the set of supporting workpapers (WP/G-6). The Depreciation Class is billed to various

FERC accounts, each of which can be traced into the set of supporting workpapers.

Q61. HOW COULD A REVIEWER OBTAIN MORE DETAILED INFORMATION ABOUT A PARTICULAR PROJECT CODE ("PC")?

A. For each PC, a reviewer could "drill down" to a very detailed level of information contained in the Project Summaries included in my Exhibit RMD-E. The Project Summaries, which are supported by all witnesses of classes that charged to a particular PC, are arranged in PC order and are indexed by page number.

Q62. WHAT INFORMATION IS INCLUDED IN EACH PROJECT SUMMARY?

A. Each Project Summary shows the following information for each PC:

- Test Year billings to ETI by FERC account;
- Test Year billings to ETI by class of services;
- a statement of the purpose of the PC;
- the primary activities encompassed by the PC;
- the products or deliverables resulting from the PC;
- the billing method associated with the PC; and
- a justification for that billing method.

Q63. HOW ELSE CAN THE PROJECT SUMMARIES BE USED AS A TOOL FOR REVIEWING AFFILIATE DATA?

A. The Project Summaries can be used to trace project code data from the Exhibits B and C into the G-6 Schedules. For example, Financial Services class costs related to Project Code F3PCF23442, entitled "Payroll Processing," can be found on Exhibit RMD-B. The Total ETI Adjusted amount for the Financial Services Class for this project is $73,754 for the Test Year. From Exhibit B, one can obtain a good deal of information about the services provided – billing method, project description, Total ETI Adjusted amount, etc. For example, Billing Method PRCHKALL is applied to Project Code F3PCF23442. If more detail is required to verify why Billing Method PRCHKALL is appropriate, or which other classes may have charged this project, or the types of activities being provided, one could go to the index of Project Summaries included with Exhibit RMD-E and locate the page number for the Project Summary for Project Code F3PCF23442 (page 1,517 of Exhibit RMD-E). The FERC account amounts for this PC can be traced into the set of supporting workpapers (WP/G-6) where each FERC account can be subtotaled by billing entity using Microsoft Excel's "Auto Filter" command, and this subtotal will agree to Schedule G-6 for that FERC account.

## V. THE AFFILIATE BILLING PROCESS

Q64. PLEASE DESCRIBE THE AFFILIATE TRANSACTIONS THAT PRIMARILY AFFECT ETI'S COST OF SERVICE IN THIS APPLICATION.

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

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

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

Q65. PLEASE DESCRIBE THE PROCESS USED BY THE ENTERGY COMPANIES TO CHARGE AFFILIATES FOR SERVICES PROVIDED.

A. ESL and the other Entergy affiliated companies use three mechanisms to bill affiliates for services rendered: (1) project billings; (2) loaned resource billings; and (3) co-owner billings. These mechanisms are included in the affiliate billing process ("billing process"). Project billings are transactions billed to affiliates for services rendered using PCs to determine how costs should be billed to affiliates. Loaned resource billings are transactions that bill charges directly to the Department and/or Business Unit that is the recipient of the services provided. Loaned resource billings include charges for the payroll applicable to "loaned" employees (for example line crews from one Operating Company sent to assist another Operating Company in storm restoration), transportation, and materials and supplies. Co-owner billings include costs incurred by one Entergy affiliate for the operation and maintenance of a jointly owned plant, and subsequently transferred to another affiliate based on their ownership. During the test year, ELL transferred costs to ETI related to the jointly owned Nelson 6 plant using the co-owner billing process. The co-owner billing process and the Nelson 6 billings are discussed more fully in the direct testimony of Ms. Gale. Entergy service companies such as ESL typically bill via project billings. Other affiliates can only use loaned resource billings or co-owner billings when billing or transferring costs to an affiliate.

Q66. PLEASE SUMMARIZE THE CONTROLS THAT HAVE BEEN ESTABLISHED TO HELP ENSURE THAT BILLINGS TO AFFILIATES PROPERLY REFLECT THE ACTUAL COST OF AN ITEM OR SERVICE.

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

These process controls include:

- Multiple Approvals of PCs;
- Approval of Loaned Resource Billing Transactions;
- Approval of Source Documentation;
- Budget Process Activities;
- Monthly Allocation Results and Billing Analysis;
- Authorization Required to Access Corporate Applications;
- Billing Analysis Review Team ("BART") Monthly Reviews of ESL Billings;
- Employee Training;
- Internal Reviews of Affiliate Transactions and Processes;
- External Reviews and Audits of Affiliate Transactions and Processes;
- Sarbanes-Oxley Controls and Testing;
- FERC Compliance Controls and Testing; and
- Affiliate Transactions Policy.

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

## VI. ESL SERVICE BILLINGS

### A. Overview of the ESL Billing Process

Q67. PLEASE PROVIDE A BRIEF EXPLANATION OF YOUR EXHIBIT RMD-15: "AFFILIATE BILLING PROCESS DISCUSSION."

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

1) RMD-15 Attachment 1 – Comparison of Affiliate Billing Mechanisms Overview;
2) RMD-15 Attachment 2 – Affiliate Billings by Billing Type;
3) RMD-15 Attachment 3 – Billable Project Code Set-Up and Use Flowchart;
4) RMD-15 Attachment 4 – Guidelines for Completing a Project Scope Statement;
5) RMD-15 Attachment 5 – The Service Company Billing Process Flowchart;
6) RMD-15 Attachments 6a, 6b, and 6c – ESL Billing Method Tables;
7) RMD-15 Attachment 7 – Billing Method Summary;
8) RMD-15 Attachment 8 – Affiliate Billing Process Controls; and

9) RMD-15 Attachment 9 – Deloitte & Touche LLP's 2021 Independent Accountants' Report on Applying Agreed-Upon Procedures (dated June 10, 2022).

Q68. PLEASE DESCRIBE THE ESL BILLING PROCESS.

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

Q69. WHEN IS THE PROJECT CODE ASSIGNED TO A TRANSACTION?

A. The PC is assigned at the time the transaction is entered into a source system (e.g., Time Entry System, Accounts Payable). The employee submitting the charge is most familiar with the charge and is responsible for applying the correct PC to the transaction. In addition, the employee's budget coordinator may assist in determining the correct PC for a specific cost.

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

Q70. PLEASE DESCRIBE THE TIME ENTRY SYSTEM USED BY THE ENTERGY COMPANIES.

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

Q71. PLEASE SUMMARIZE THE CONTROLS THAT ARE IN PLACE TO ENSURE THE ACCURACY OF THE INFORMATION RECORDED ON THE TIMESHEETS IN TIME & LABOR.

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

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

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

Q72. HOW ARE PROJECT CODES INITIATED AND MADE AVAILABLE FOR USE?

A. As I previously mentioned, the Entergy Companies use a project costing application (PowerPlan) that provides a single point of entry for all PCs. When a particular department determines that a new project or service is being initiated, PowerPlan is used by that department to set up the PC. During set-up, the preparer of the PC request enters several elements to establish a PC. The preparer provides a descriptive title for the PC and determines the appropriate billing method, which may directly bill one affiliate or allocate costs to multiple affiliates. The billing method is determined based on cost causation principles for the particular project.

The preparer also describes the scope of the PC, including its overall purpose, the primary activities to be performed, the products or deliverables expected, and a justification of the billing method selected. This scope, as well as all of the attributes associated with the PC, are stored in PowerPlan and can be referenced by users as needed.

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

Q73. DOES THE AFFILIATE BILLING PROCESS ENSURE THAT THE COSTS CHARGED BY ESL TO ETI ARE NO HIGHER THAN THE COSTS CHARGED TO OTHER AFFILIATES FOR THE SAME OR SIMILAR ACTIVITIES AND SERVICES?

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

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

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

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

therefore, the cost for a given unit of service is equal for all affiliates receiving the service.

Q74. HOW DOES THE AFFILIATE BILLING PROCESS ENSURE THAT THE PRICE CHARGED BY ESL TO ETI REPRESENTS THE ACTUAL COST OF SERVICES?

A. With respect to direct billings, because ESL charges no more than actual costs for services provided to regulated companies, the price charged to ETI represents the actual cost. With respect to allocated costs, because ESL charges the regulated companies at cost and utilizes the principle of cost causation in identifying a billing method, the unit price charged to ETI represents the actual cost.

Q75. DOES YOUR TESTIMONY INCLUDE A SUMMARY OF CONTROLS TO ENSURE THE ACCURACY OF THE ESL AFFILIATE BILLINGS?

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

Q76. ARE THERE ANY REVIEWS OF THE CONTROLS OVER THE ACTIVITIES AND SERVICES AND THE RELATED COSTS THAT ESL PROVIDES?

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

In addition, external reviews and audits of affiliate transactions and processes are conducted routinely. For instance, D&T performs certain agreed-upon procedures annually at the request of the Entergy Companies to satisfy a requirement included in an October 1992 Settlement Agreement, as amended, between certain regulators and the Entergy Companies that pertains to billings from Entergy affiliates to EEI. D&T selects several intercompany transactions billed to EEI by Entergy affiliates to ensure that they were billed in accordance with PUHCA 2005 affiliate billing requirements. D&T's "Independent Accountants' Report on Applying Agreed-Upon Procedures" for the year ended December 31, 2021, the most recent available, is included as Attachment 9 to Exhibit RMD-15.

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

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

Q77. DO YOU HAVE ANY INDEPENDENT VERIFICATION THAT THE CONTROLS ARE FUNCTIONING PROPERLY?

A. Yes. D&T performed an independent attestation examination of management's assertion on the presentation of costs billed by ESL and other Entergy affiliates to ETI for the twelve months ended December 31, 2021.[12] D&T's attestation examination included, among other things: (1) consideration of controls surrounding the affiliate billing process; (2) documentation included in the PC scope statements, including a description of the PC's use and purpose, the activities associated with that particular project, the expected deliverables from activities in the project, and justification for the billing method to be used for billing the costs accumulated in the project; and 3) testing of affiliate service charges billed during the Test Year for this docket.

Q78. PLEASE EXPLAIN WHAT YOU MEAN BY "PC SCOPE STATEMENTS."

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

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12 Workpaper WP/RMD-3 includes ESL's management assertion and D&T's report in connection with this attestation examination.

primary products or deliverables of the project, the billing method that applies to the project, and the justification for that billing method. I have discussed the contents of these Project Summaries in more detail previously in my testimony.

Q79. PLEASE SUMMARIZE YOUR UNDERSTANDING OF D&T'S CONCLUSIONS RELATING TO AFFILIATE SERVICE CHARGES.

A. D&T's independent attestation examination of management's assertion on the presentation of costs allocated by ESL and other Entergy affiliates to ETI concluded that management's assertion was fairly stated in all material respects. Management asserted that ESL has allocated costs accumulated in identified PCs on a cost causative basis using billing methods that ensure accurate recording and billing of the costs associated with the provision of the related services. Management further asserted that billing methods used to allocate costs by ESL ensure that costs charged to ETI reasonably approximate the actual costs of services provided and are no higher than the costs charged to other affiliates for similar services.

Q80. PLEASE SUMMARIZE YOUR UNDERSTANDING OF D&T'S CONCLUSIONS RELATING TO PC SCOPE STATEMENTS.

A. D&T concluded that management's assertion regarding the PC scope statements was fairly stated in all material respects, i.e., the PC scope statements adequately described the project purpose, primary activities, products or deliverables, and rationale for billing method assignment.

Q81. DOES THE TOTAL ETI ADJUSTED AMOUNT ON THE G-6 SCHEDULES INCLUDE RECOMMENDATIONS MADE BY D&T AS A RESULT OF ITS ATTESTATION EXAMINATION OF MANAGEMENT'S ASSERTION ON THE PRESENTATION OF COSTS ALLOCATED BY ESL AND OTHER ENTERGY AFFILIATES TO ETI?

A. No. D&T made no recommendations of adjustments as a result of its attestation examination of management's assertion on the presentation of costs allocated by ESL and Other Entergy Affiliates to ETI.

### B. <u>Summary of ESL Billings to Affiliated Companies</u>

Q82. WHAT WERE TOTAL BILLINGS FROM ESL TO THE AFFILIATED COMPANIES DURING THE TEST YEAR?

A. ESL billed approximately $1.6 billion to its affiliate companies during the Test Year. The following exhibits to my testimony contain schedules that present views of ESL billings to affiliates:

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

Q83. WHAT HAPPENS TO CHARGES THAT ARE BILLED BY ESL TO THE OTHER SERVICE COMPANIES, SUCH AS EOI AND EEI?

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

Q84. WHAT IS THE LEVEL OF CHARGES FROM ESL TO ETI DURING THE TEST YEAR?

A. ESL billed ETI approximately $186.9 million during the Test Year, or approximately 11.52% of ESL's total billings to all affiliates during the Test Year (as seen on Exhibit RMD-8). This figure is a total per book number, which includes expense and capital amounts billed to ETI. After taking into account exclusions and pro forma adjustments for ESL charges billed to ETI, the Total ETI Adjusted number is approximately $96.6 million (the remaining $11.4 million of the Total Requested amount relates to direct charges from other Entergy affiliates).

Q85. HAVE THERE BEEN ANY CHANGES TO THE ESL BILLING PROCESS SINCE THE COMMISSION'S LAST REVIEW OF THE AFFILIATE BILLING PROCESS IN DOCKET NO. 48371?

A. No. There have been no substantive changes to the ESL billing process since the Commission's last review of ETI's rates in Docket No. 48371.

### C. Billing Methods

#### 1. Billing Method Overview

Q86. IN SECTION VI.A ABOVE YOU DESCRIBED HOW A BILLING METHOD CHOSEN FOR A PROJECT CODE ENSURES THAT ETI IS BILLED ONLY THOSE COSTS ATTRIBUTABLE TO ETI. DO YOU HAVE AN EXHIBIT THAT PROVIDES MORE INFORMATION REGARDING THE BILLING METHOD ASSIGNMENT PROCESS?

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

Q87. PLEASE EXPLAIN HOW ESL DEFINES "DIRECT" VERSUS "ALLOCATED" BILLINGS.

A. ESL defines direct billings as those that are billed 100% to one affiliate. Costs included in direct billings are incurred exclusively for the benefit of one affiliate.

ESL defines allocated billings as those that are distributed using a formula that allocates costs to two or more affiliates. Costs included in allocated billings are incurred for the benefit of more than one affiliate.

Q88. DOES ESL BILL DIRECTLY FOR SERVICES PROVIDED TO THE REGULATED AFFILIATES WHENEVER APPROPRIATE?

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

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

Direct billings from ESL to ETI were 74% of ETI's total charges from ESL during the Test Year. Exhibit RMD-17 depicts the percentage of direct versus allocated billings from ESL to each of the affiliates to which ESL provides service. As evidenced by this exhibit, ETI's direct billings from ESL are in line with the direct billings received by the other operating companies.

Q89. DOES ESL DIRECTLY BILL EEI FOR SERVICES PROVIDED TO EEI ON BEHALF OF THE NONREGULATED AFFILIATES WHENEVER APPROPRIATE?

A. Yes. As noted above, the Operating Companies have similar operations, which provide opportunities for consolidation of services provided to them by ESL. Although the provision of similar services by a single provider results in economies of scale, this often requires an allocation of costs instead of direct charging. However, because Entergy's nonregulated subsidiaries require many services that are not similar to those of the regulated utility Operating Companies, the nonregulated companies are not likely to share as many "consolidated" services as the regulated companies. Instead, because of the variation in requested services provided to the nonregulated affiliates, direct billings to the nonregulated affiliates occur more often than direct billings to the Entergy Operating Companies. As shown on Exhibit RMD-17, direct billings to EEI (which receives the majority of nonregulated billings and, in turn, bills the appropriate subsidiary) represent 32% of the total billings by ESL to EEI. As noted above, many services provided by ESL to nonregulated affiliates are billed by ESL to EEI, rather than to the individual nonregulated affiliates that receive those services. This does not mean, however, that ESL is "underbilling" the nonregulated affiliates for the services they receive. The billing methods applied to the project codes applicable to these services ensure that the nonregulated affiliates are paying for their applicable share of these costs (if allocated), or the full cost if the project code direct bills the entire cost to EEI. Exhibit RMD-15 Attachment 6c includes the statistics of each nonregulated company that were included in calculating billing methods.

Q90. DOES ESL EVER USE MORE THAN ONE BILLING METHOD FOR A GIVEN PC?

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

Q91. AFTER THE COSTS OF ESL'S SERVICES ARE CAPTURED BY A PC, HOW ARE COSTS ALLOCATED AMONG THE APPROPRIATE COMPANIES?

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

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

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

Q92. PLEASE SUMMARIZE HOW THE BILLING METHODS WORK.

A. Services that are provided by ESL to only one Entergy affiliate are billed using direct billing methods, which by definition bill only one affiliate. Services that are provided to more than one affiliate are allocated in accordance with formulae reviewed and accepted by FERC. As previously discussed, billing methods that distribute costs using these formulae are often termed allocation methods. There were 177 direct and allocated billing methods derived from FERC-accepted formulae in order to bill ESL affiliate costs to the Entergy-affiliated companies during the Test Year. Of these billing methods, approximately 34% are direct billing methods (one billing method for each business unit ESL serves directly), and the remainder represent variations of the allocation formulae, as discussed above. However, as noted on Attachment 7 of RMD-15, only 69 of the 177 ESL billing methods were used to bill costs to ETI during the Test Year as reflected in the Total ETI Adjusted amount.

### 2. **Billing Method Calculations**

Q93. WHAT ARE THE ESL BILLING METHODS THAT WERE USED TO BILL COSTS FOR SERVICES TO ETI DURING THE TEST YEAR?

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

Q94. PLEASE DESCRIBE HOW EACH ALLOCATION METHOD EMPLOYED BY ESL DURING THE TEST YEAR IS CALCULATED.

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

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

### D. <u>Service Company Recipient Allocation</u>

Q95. DOES THE ESL AFFILIATE BILLING PROCESS INCLUDE A MECHANISM THAT CAPTURES AND ALLOCATES THE COSTS ASSOCIATED WITH SERVICES THAT ESL PROVIDES TO ITSELF?

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

Q96. HOW DOES ESL CAPTURE THE COSTS ASSOCIATED WITH ESL SERVICES RECEIVED?

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

Q97. WHERE DOES ESL RECORD THE COSTS ASSOCIATED WITH ESL SERVICES THAT ARE BILLED TO ESL?

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

Q98. HOW ARE THE COSTS ACCUMULATED IN ACCOUNT 184SSL ALLOCATED?

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

Q99. PLEASE DESCRIBE THE SERVICE COMPANY RECIPIENT ALLOCATION PROCESS.

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

Q100. HOW IS THE LOADER RATE CALCULATED?

A. The loader rate for each function is determined by dividing the total amount of costs in the pool for a function for that month by the total amount of labor billings (the basis) to affiliates for each function for the same month. The monthly loader rates may vary as the functional pool and basis vary. The loader rate then is applied to labor billing results to distribute the costs in the pool. The Affiliate Accounting and Allocations group reviews the pool and basis amounts monthly to ensure that they are reasonable.

Q101. PLEASE PROVIDE AN EXAMPLE OF THE SERVICE COMPANY RECIPIENT ALLOCATION PROCESS.

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

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

Q102. WHY DOES ESL USE THIS TWO-TIERED APPROACH FOR BILLING?

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

## E. Payroll Loaders

Q103. WHAT ARE PAYROLL LOADERS?

A. Payroll loaders allocate payroll-related costs, specifically payroll taxes, employee benefits, postemployment benefits, stock options, certain incentive compensation, and paid time off. Each of these costs has its own loader. These payroll-related costs are loaded to projects so that each project is fully loaded with both the direct labor costs and the associated payroll loaders.[13]

[13] A pro forma adjustment was made to remove stock options and other financially based incentive compensation from the Company's cost of service.

Q104. PLEASE SUMMARIZE THE PAYROLL LOADERS PROCESS.

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

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

Q105. HOW OFTEN ARE LOADER RATES REVIEWED AND ADJUSTED, IF NEEDED?

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

## VII. OTHER AFFILIATE BILLINGS

Q106. BESIDES ESL, WHICH ENTERGY COMPANIES BILLED ETI FOR SERVICES RENDERED DURING THE TEST YEAR?

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

- Exhibit RMD-19 – Entergy Arkansas Billings to Affiliates;
- Exhibit RMD-20 – Entergy Louisiana Billings to Affiliates;

- Exhibit RMD-21 – Entergy Mississippi Billings to Affiliates;
- Exhibit RMD-22 – Entergy New Orleans Billings to Affiliates; and
- Exhibit RMD-23 – Entergy Non-Regulated Affiliates Billings to Regulated Affiliates.

## VIII. SPONSORED CLASS OF AFFILIATE COSTS

### A. Overview

Q107. WHAT IS THE PURPOSE OF THIS SECTION OF YOUR TESTIMONY?

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

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

2) Service Company Recipient Offsets. The Total ETI Adjusted amount for the Service Company Recipient Offsets Class is zero. This class is setup for accounting purposes only; and

3) Other Expenses. The Other Expenses Class primarily includes annual incentive compensation plan adjustments, the credit ETI received from the 5% upcharge to the nonregulated affiliates, and other miscellaneous costs not associated with other specific classes.

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

Q108. WITH REGARD TO THE THREE CLASSES THAT YOU SPONSOR, DO THE BILLINGS PROVIDED TO ETI DURING THE TEST YEAR MEET THE COMMISSION STANDARDS FOR INCLUSION OF SUCH COSTS IN RATES?

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

1) The charges billed to ETI during the Test Year were reasonable and necessary for the operation of ETI.

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

3) The amounts charged to ETI during the Test Year represent the actual costs of services provided to ETI.

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

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

## B. Depreciation Class

### 1. Description of Class

Q109. PLEASE BRIEFLY DESCRIBE THE DEPRECIATION CLASS OF AFFILIATE COSTS.

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

Q110. WHAT KINDS OF ASSETS ARE OWNED BY ESL THAT RESULT IN THE DEPRECIATION THAT IS THEN CHARGED TO THE AFFILIATE COMPANIES?

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

Q111. PLEASE EXPLAIN WHY THE DEPRECIATION COSTS BILLED TO ETI ARE NECESSARY.

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

### 2. **Overview of Costs and Billing**

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

A. As shown in Exhibits RMD-A, RMD-B, and RMD-C, the Total ETI Adjusted amount for this class of services is $3,494,387. Of this amount, ESL directly billed 22% of the amount, and allocated 78% of the amount, to ETI. The following table summarizes this information for the Depreciation Class. The table shows for each class the following information:

**Table 1: Percent Direct Billed vs. Allocated**[14]

| | | Total ETI Adjusted | | |
|---|---|---|---|---|
| **Class** | **Total Billings** | **Amount** | **% Direct** | **% Allocated** |
| Depreciation | $56,037,950 | $3,494,387 | 22.29% | 77.71% |

[14] **Total Billings** is ESL's total billings to all Entergy companies for the Test Year, plus all other affiliate charges that originated from any Entergy company. This is the amount from Column C of Exhibits A, B, C. **Total ETI Adjusted Amount** is ETI's cost of service amount after pro forma adjustments and exclusions. **% Direct Billed** is the percentage of the Total ETI Adjusted Amount that was billed directly to ETI for the Test Year. **% Allocated** is the percentage of the Total ETI Adjusted Amount that was allocated to ETI for the Test Year.

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

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

| | |
|---|---|
| Column (A) – Support | Dollar amount of total Test Year billings and charges from 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 earlier in my testimony. |
| Column (C) – Total | Represents the sum of Columns (A) and (B). |
| Column (D) – All Other BU's | That portion of Column (C) that was billed and charged to Business Units other than ETI. |
| Column (E) – ETI Per Books | Represents the difference between Columns (C) and (D). |
| Column (F) – Exclusions | Represents amounts that are excluded from ETI electric cost of service. The exclusions are described in my testimony. |
| Column (G) – Pro Forma Amount | Pro Forma Amounts include adjustments for known and measurable changes, and corrections. |
| Column (H) – Total ETI Adjusted | ETI adjusted amount requested for recovery in this case for this class (Column (E) plus Columns (F) and (G)). |

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

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

A. Yes. The pro forma adjustments for the Depreciation Class are shown on Exhibit RMD-D, which also indicates the witnesses who sponsor those pro forma adjustments and lists the pro forma adjustments by activity/project code, ESL billing method, and by FERC account. Exhibit RMD-12 describes the pro forma adjustments to the Depreciation Class in greater detail.

Q115. DO THE DEPRECIATION COSTS CHARGED BY ESL TO ETI UNDER THIS CLASS REASONABLY APPROXIMATE THE COSTS OF THOSE ITEMS?

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

Q116. IS THE PRICE CHARGED TO ETI FOR DEPRECIATION NO HIGHER THAN THE PRICE CHARGED TO OTHER AFFILIATES?

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

Q117. HOW ARE THE COSTS OF THIS CLASS CAPTURED AND BILLED TO ETI?

A. With the exception of depreciation on aircraft, which is adjusted out, the cost associated with this class is initially captured in Project Code F5PCZUDEPX, Depreciation and Amortization, and then these costs are distributed directly to ESL PCs based on the labor charged to the project codes. The receiving PCs then bill the depreciation costs (along with all other costs charged to the PC) to ESL's affiliates based on the assigned billing method for each project. During the Test Year, projects receiving depreciation costs billed $3,494,387 Total ETI Adjusted, which includes pro forma adjustments, to ETI. Exhibit RMD-B shows the costs included in this class by project code.

Q118. WHAT BILLING METHOD IS USED TO ALLOCATE THIS EXPENSE ITEM TO THE VARIOUS ENTITIES THAT RECEIVE SERVICES FROM ESL?

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

Q119. PLEASE DESCRIBE HOW THE DEPRECIATION OF ESL'S ASSETS IS CALCULATED.

A. The purpose of depreciation is to distribute the cost of an asset over its expected useful life. Total depreciation expense over the life of an asset is equal to the asset's cost (less any proceeds realized upon disposal). ESL uses the straight line method to calculate the annual depreciation expense for its assets. Use of this depreciation method results in the cost of an asset being distributed evenly over the expected useful life of the asset. For example, an asset costing $1,000 that has an expected service life of 10 years would result in depreciation expense for this asset of $100 per year for a period of 10 years ($1,000 divided by 10 years = $100 per year or 10% a year). This method of calculating depreciation is appropriate under generally accepted accounting principles. Exhibit RMD-24 is a summary of ESL's assets, including plant in service, accumulated depreciation, net plant, and the service life used to calculate depreciation.

### 3. **Reasonableness**

Q120. HAVE YOU REVIEWED THE DEPRECIATION EXPENSE TO DETERMINE WHETHER THE CHARGES WERE REASONABLE?

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

Q121. WHAT OBJECTIVE SOURCES SUPPORT YOUR OPINION THAT THE DEPRECIATION COSTS BILLED BY ESL TO ETI ARE REASONABLE?

A. Exhibit RMD-25 is a benchmarking study prepared under my supervision that compares the dollar amount of assets per employee for ESL to the dollar amount of assets per employee for other PUHCA 2005 service companies. This measure, cost of assets per employee, is appropriate because employees drive the need for assets in service companies. Because the number of employees would be the primary determinant of the level of the assets that would be required, assets per employee is a valid measure. Exhibit RMD-25 compares the service company property per employee of ESL to the service company property per employee of six other PUHCA 2005 service companies with at least $100 million of service company property as of December 31, 2021. This exhibit supports the conclusion that ESL's cost of assets per employee, while somewhat higher than the average, still falls within a reasonable range compared to that of the other PUHCA 2005 service companies. This comparison is based on service company headcount information contained in the respective corporate Forms 10K and service company property information contained in each service company's FERC Form 60 Annual Report for the period ending December 31, 2021.

Q122. DID YOU INCLUDE ANY ADJUSTMENT TO THE DATA IN PERFORMING THE BENCHMARKING COMPARISON?

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

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

## C. Service Company Recipient Offsets

### 1. Description of Class

Q123. PLEASE BRIEFLY DESCRIBE THIS CLASS OF AFFILIATE COSTS.

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

## D. Other Expenses Class

### 1. Description of Class

Q124. PLEASE DESCRIBE THIS CLASS OF AFFILIATE COSTS.

A. This class reflects a credit of $178,043 of costs resulting from certain accounting adjustments and other expenses. It primarily includes annual incentive compensation plan adjustments,[15] the credit ETI received from the 5% upcharge to the non-regulated affiliates, and other miscellaneous costs that are not associated with any other specific affiliate class.

Q125. PLEASE DESCRIBE THE ADJUSTMENTS AND OTHER EXPENSES ASSOCIATED WITH THE PAYROLL-RELATED COSTS INCLUDED IN THIS CLASS.

A. The annual incentive compensation plan adjustments are primarily the result of the use of standard estimated rates throughout the year, which differ from actual recorded charges at the end of the year. The costs resulting from the annual incentive compensation plan adjustments were $227,001. Ms. Raeder discusses the reasonableness of various types of payroll related costs, including employee benefits, team-sharing, and other incentive compensation and payroll taxes. I address the residual amount of the payroll related costs that have not been included in other affiliate classes.

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[15] To the extent these costs included financially based incentive compensation, they are removed in adjustment AJ24B.

Q126. WHAT OTHER COSTS ARE INCLUDED IN THE OTHER EXPENSES CLASS?

A. Included in the Other Expenses Class is a credit of $454,439 related to the 5% upcharge to the nonregulated companies and $49,395 of miscellaneous costs that are not associated with any other specific classes.

Q127. WHAT PERCENTAGES OF THE TOTAL ETI ADJUSTED FOR THIS CLASS WERE DIRECT BILLED AND ALLOCATED TO ETI?

A. As shown on Exhibit RMD-A, RMD-B, and RMD-C, the Total ETI Adjusted amount for this class of services is $(178,043). The following table summarizes the direct and allocated billed percentages for the Other Expenses Class. I described the column names previously in the Depreciation Class section of my testimony.

**Table 2: Direct and Allocated Billed for Other Expense Class[16]**

| | | Total ETI Adjusted | | |
|---|---|---|---|---|
| **Class** | **Total Billings** | **Amount** | **% Direct** | **% Allocated** |
| Other Expenses | $770,881,352 | $(178,043) | 212.20% | -112.20% |

Q128. PLEASE DESCRIBE THE EXHIBITS THAT SUPPORT THE INFORMATION INCLUDED IN THE TABLE ABOVE.

A. Exhibits RMD-A through RMD-C support the information for this class in the same manner as I discussed earlier in my testimony. For each exhibit, the amounts in the

[16] Negative balance is driven by the 5% surcharge credit that is shared with the operating companies for costs billed from ESL to non-regulated companies.

columns represent the same information as described above with regard to my Depreciation Class.

Q129. ARE THERE ANY PRO FORMA ADJUSTMENTS TO THIS CLASS?

A. Yes. The pro forma adjustments for the Other Expenses Class are shown on Exhibit RMD-D, which also indicates the witnesses who sponsor those pro forma adjustments. Exhibit RMD-12 describes the pro forma adjustments to this Class in greater detail.

Q130. WHAT ARE THE MAJOR COST COMPONENTS OF THE CHARGES FOR THIS CLASS?

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

**Table 3: Major Cost Components for Other Expense Class**

| Cost Component | Dollars | % of Total |
|---|---|---|
| Payroll and Employee Costs | $226,941 | -127% |
| Service Company Recipient | $27,886 | -16% |
| Other | $(432,871) | 243% |
| **Total** | **$(178,043)** | **100%** |

Q131. WHAT IS THE IMPORTANCE OF THESE COST CATEGORIES?

A. The foregoing table is common to most affiliate witnesses in this case. I directly sponsor the costs shown in this table because they comprise the Total ETI Adjusted amount for the Other Expenses Class. This breakout of costs provides an additional view of the components of the costs in this class. For example, the table demonstrates that -127 % of the costs are for compensation and other labor related expenses ("Payroll and Employee Costs"). These costs are the result of certain adjustments and other expenses, which I discussed earlier in this section. Ms. Raeder discusses overall compensation structure and practices.

### 2. Necessity

Q132. PLEASE EXPLAIN WHY THE ADJUSTMENTS AND OTHER EXPENSES THAT RESULTED IN THE COSTS BILLED TO ETI UNDER THE OTHER EXPENSES CLASS ARE NECESSARY.

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

### 3. Reasonableness

Q133. HAVE YOU REVIEWED THE COSTS IN THE OTHER EXPENSES CLASS TO DETERMINE WHETHER THEY WERE REASONABLE?

A. Yes. The annual incentive compensation plan adjustments in the Other Expenses Class were reasonable because they were made in accordance with generally accepted accounting standards to reflect timing differences associated with book entries. There is no duplication or over recovery of actual costs. The remaining costs are reasonable (and necessary) to reflect proper and accepted accounting practices with regard to the Company's books. The reasonableness of compensation programs is discussed by Ms. Raeder.

### 4. <u>How Costs Are Charged</u>

Q134. DO THE COSTS CHARGED BY ESL TO ETI UNDER THE OTHER EXPENSES CLASS REASONABLY APPROXIMATE THE COSTS OF THOSE ITEMS?

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

Q135. IS THE PRICE CHARGED TO ETI FOR ADJUSTMENTS AND OTHER EXPENSES CHARGED UNDER THIS CLASS NO HIGHER THAN THE PRICE CHARGED TO OTHER AFFILIATES?

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

## IX. SPONSORED AFFILIATE PRO FORMA ADJUSTMENTS

Q136. DO YOU SPONSOR ANY OF THE PRO FORMA ADJUSTMENTS TO THE TEST YEAR INCLUDED IN EXHIBIT RMD-12?

A. No. Please refer to Exhibit RMD-12 and RMD-D for a listing and description of the affiliate pro forma adjustments to the Test Year sponsored by other witnesses.

## X. BENCHMARKING OF ESL COSTS

Q137. ARE ESL'S COSTS OF PROVIDING ITS SUPPORT SERVICES COMPARABLE TO OTHER SERVICE COMPANIES?

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

Q138. HAVE YOU DONE ANY TYPE OF ANALYSIS TO REACH THE CONCLUSION THAT ESL'S COSTS ARE GENERALLY IN LINE WITH THOSE OF PEER SERVICE COMPANIES?

A. Yes. I conducted a benchmarking analysis comparing ESL's costs with the costs of peer service companies using publicly available information in the 2021 FERC Form 60 for a peer group of service companies and the December 31, 2021 Form 10K for the related holding companies.

Q139. PLEASE DESCRIBE HOW YOU DEVELOPED YOUR LIST OF PEER GROUP SERVICE COMPANIES.

A. I identified the list of service companies that submitted a 2021 Form 60 to FERC. FERC Form 60 is required to be filed by all utility service companies serving multiple jurisdictions. As of May 1, 2021, the filing deadline for the 2021 FERC Form 60, 38 service companies, including ESL, had submitted FERC Form 60. (This number excludes any filings related to corrections of an already submitted FERC Form 60). Several of these companies have multiple service companies that provide specific services that are not comparable to ESL, including those that provide nuclear generation operations. My analysis excluded those service companies that provide specific services that are not comparable to ESL. In order to ensure comparability, my analysis also excluded service companies with a non-U.S. based parent company and companies with fewer than one million customers. I also excluded those companies whose service company headcount information is not publicly available in the Form 10K or whose FERC Form 60 does not include service company property in excess of $100,000,000. The resulting 2021 ESL peer group used in my benchmarking analysis includes Ameren, American Electric Power, Exelon, FirstEnergy, PHI, and Southern. A high level overview of the peer group selection process is included in Exhibit RMD-26A.

Q140. PLEASE DESCRIBE THE FERC FORM 60 DATA AND THE FORM 10-K DATA THAT WAS USED IN YOUR BENCHMARKING ANALYSIS.

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

Q141. WHAT WERE THE RESULTS OF YOUR BENCHMARKING ANALYSIS FOR EACH OF THE COST COMPARISONS LISTED ABOVE?

A. As shown in Exhibit RMD-26B, ESL O&M expense represents 10.73% of total company O&M expense, which is above the peer group average of 7.40%. As shown in Exhibit RMD-26C, ESL O&M expense represents 7.59% of total company revenue, which is above the peer group average of 4.55%. As shown in Exhibit RMD-26D, ESL O&M expense represents 1.80% of total company assets, which is comparable to the peer group average of 1.18%. Lastly, as shown in Exhibit RMD-26E, ESL O&M expense is $221,506 per ESL employee, which is below the peer group average of $453,220.

Q142. HOW SHOULD COMPARATIVE PERFORMANCE RELATIVE TO A PEER GROUP, AS CALCULATED THROUGH BENCHMARKING, BE VIEWED?

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

Q143. WHAT DO YOU CONCLUDE FROM THE BENCHMARKING ANALYSIS THAT YOU PERFORMED?

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

## XI. <u>CONCLUSION</u>

Q144. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, at this time.

**AFFIDAVIT OF RYAN M. DUMAS**

THE STATE OF LOUISIANA )
)
ORLEANS PARISH )

This day, Ryan Dumas, 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 Ryan M. Dumas. 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.

Ryan M. Dumas

SUBSCRIBED AND SWORN TO BEFORE ME, notary public, on this the 16 day of June 2022.

Notary Public, State of Louisiana

My Commission expires:

Sean Damian Moore
Notary ID# 40557
Notary Public for the State of Louisiana
My Commission Expires Upon Death

**Ryan M. Dumas**
639 LOYOLA AVENUE
NEW ORLEANS, LA 70113
(504) 576-3452

## PROFESSIONAL WORK EXPERIENCE

### Entergy Services, Inc., New Orleans, LA

Manager – Affiliate Accounting & Allocations 2022–Present

- Testify to Entergy's affiliate billing processes as required by regulatory and legal environments
- Responsible for affiliate regulatory matters
- Prepare affiliate testimony and schedules for rate proceedings
- Interface extensively with internal customers regarding appropriate accounting for intrasystem affiliate billing transactions, project code setup/approval, billing method development/selection, etc.
- Coordinate development of affiliate billing training modules
- Interface with company legal and regulatory representatives, auditors, outside consultants, and commission staff on affiliate billing issues
- Responsible for analysis of financial statement and billing results
- Responsible for ESL service company recipient allocation process and procedures

Manager – Miscellaneous Accounts Receivable 2020–2022

- Responsible for the billing and accounts receivable system for non-utility bill related receivables
- Responsible for reserve calculation for outstanding accounts receivable balance
- Responsible for help desk related to Miscellaneous Receivables
- Responsible for invoicing and collection on contractual based receivables
- Responsible for processing payments related to miscellaneous receivables
- Responsible for Receivables module within PowerPlan
- Interface with company legal, auditors, customers on outstanding receivables
- Responsible for dunning and collections process related to miscellaneous receivables

Manager – Revenue Accounting 2018–2020

- Responsible for unbilled revenue calculation
- Responsible for Customer Care System accounting maintenance
- Responsible for providing senior leadership with explanations of revenue variances
- Responsible for reporting on net revenue measures
- Responsible for accounting for short-term and long-term debt
- Responsible for amortization of certain regulatory assets and liabilities
- Interface extensively with internal customers regarding appropriate accounting for new rate tariff's

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## PROFESSIONAL WORK EXPERIENCE (Continued)

### Entergy Services, Inc., New Orleans, LA (continued)

Sr. Staff Accountant – Property Accounting 2014–2018

- Managed PowerPlan capital asset and project management application
- Served as lead for cross functional effort to upgrade PowerPlan application
- Reviewed, enforced, and developed accounting policies related to the authorization of capital project spending
- Performed and oversaw month end close activities
- Supported ERP replacement
- Supported business combination project
- Developed and maintained application security and segregation of duties matrix

Intern, Accountant I, II, and Lead Accountant – Affiliate Accounting & Allocations 2007–2014

- Supported the budgeting and intercompany billing processes for Entergy service companies
- Updated and assisted in drafting of new service agreements
- Responsible for preparing billing methods to allocate service company costs
- Maintained allocations including ESL depreciation and service company recipient
- Supported affiliate billing reconciliation process
- Performed Sarbanes Oxley testing
- Performed and reconciled payment of intercompany bills
- Responsible for training users on affiliate billing and allocation processes
- Reviewed and approved billing method selection on project codes

## EDUCATION AND CERTIFICATON

Bachelor of Accountancy, Loyola University New Orleans, 2008
Master of Business Administration, University of New Orleans, 2012

# General Overview of Entergy Corporation Subsidiaries[1]

I. Entergy Corporation (Entergy) has the following regulated subsidiaries:

A. Regulated Retail Operating Companies

- Entergy Arkansas, LLC[2]
- Entergy Louisiana, LLC[3]
- Entergy Mississippi, LLC[4]
- Entergy New Orleans, LLC[5]
- Entergy Texas, Inc. [6]

B. Regulated Operating Company

- System Energy Resources, Inc.[7]

C. Ownership Interest of Regulated Retail Operating Companies in Entergy Affiliates:

1. Entergy Arkansas, LLC (EAL) owns interests in the following entities:

- Arkansas Power & Light Company, LLC – no current operations
- AR Searcy Partnership, LLC — a tax equity partnership between EAL and a tax equity investor, which owns AR Searcy Project Company, LLC which owns the Searcy Solar facility. EAL serves as the managing member of AR Searcy Partnership Company, LLC

[1] Exhibit RMD-3 includes an organizational chart of Entergy's regulated and non-regulated subsidiaries.
[2] Entergy Arkansas, LLC is held indirectly through Entergy Utility Holding Company, LLC.
[3] Entergy Louisiana, LLC is held indirectly through Entergy Utility Holding Company, LLC.
[4] Entergy Mississippi, LLC is held indirectly through Entergy Utility Holding Company, LLC.
[5] Entergy New Orleans, LLC is held indirectly through Entergy Utility Holding Company, LLC.
[6] Entergy Texas, Inc. is held by Entergy Corporation and outside third parties.
[7] System Energy Resources, Inc. owns or leases 90% of the Grand Gulf 1 nuclear generating facility. SERI sells power and capacity from Grand Gulf 1 at wholesale to EAL, ELL, EML and ENO.

2. Entergy Louisiana, LLC (ELL) owns interests in the following entities:
   - Entergy Louisiana Investment Recovery Funding I, L.L.C. – a special purpose entity formed to purchase and own investment recovery property, to issue investment recovery bonds secured by the investment recovery property and to perform any activity related thereto
   - Entergy Holdings Company LLC[8] - Formed to issue and hold securities of energy-related companies
   - Gulf States Utilities Company - a name holder company
   - Nelson Industrial Steam Company[9] - a qualified facility that generates electrical power
   - Prudential Oil & Gas, L.L.C.[10] – no current operations
   - Southern Gulf Railway LLC[11] – owns several miles of railroad track constructed in Louisiana primarily for the purpose of transporting coal for use as boiler fuel at the Nelson Unit 6 generating facility
   - Varibus L.L.C. – no current operations

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[8] Entergy Holdings Company, LLC is owned by ELL and Entergy Utility Holding Company. Entergy Utility Holding Company, LLC owns 100% of Class A Common Membership Interests, Class B Common Membership Interests and Class D Preferred Membership Interests. ELL owns 100% of Class A Preferred Membership Interests, Class B Preferred Membership Interests and Class C Preferred Membership Interests.
[9] Nelson Industrial Steam Company is owned by CITGO Petroleum Corporation (49.5%), Phillips 66 Company (36.1%), Sasol North America Inc. (13.4%) and ELL (1%).
[10] Prudential Oil and Gas, L.L.C. is owned by ELL (57.5%) and ETI (42.5%).
[11] Southern Gulf Railway LLC is owned by ELL (57.5%) and ETI (42.5%).

3. Entergy Mississippi, LLC (EML) owns interests in the following entities:
   - Entergy Power & Light Company — no current operations
   - Jackson Gas Light Company[12]
   - Mississippi Power & Light Company — a name holder company
   - MS Sunflower Partnership, LLC - an entity that is expected to be a tax equity partnership between EML and a tax equity investor that will acquire the Sunflower Solar facility through MS Sunflower Project Company, LLC. EML is the managing member of MS Sunflower Partnership Company, LLC.
   - The Light, Heat and Water Company of Jackson, Mississippi[13]

4. Entergy New Orleans, LLC (ENO) owns interests in the following entities:
   - Entergy New Orleans Storm Recovery Funding I, L.L.C. - a special purpose entity formed to purchase and own storm recovery property, to issue storm recovery bonds secured by the storm recovery property and to perform any activity related thereto
   - New Orleans Public Service Inc. – a name holder company

5. Entergy Texas, Inc. (ETI) owns interests in the following entities:
   - Entergy Texas Restoration Funding, LLC – a special purpose entity formed to purchase and own transition

[12] The Jackson Gas Light Company and The Light, Heat and Water Company of Jackson, Mississippi hold franchises in Mississippi, but are otherwise inactive.
[13] See footnote 12.

property, to issue transition bonds secured by the transition property and to perform any activity related thereto

- Entergy Gulf States Reconstruction Funding I, LLC – a special purpose entity formed to purchase and own transition property, to issue transition bonds secured by the transition property and to perform any activity related thereto
- Entergy Texas Restoration Funding II, LLC – a special purpose entity formed to purchase and own transition property, to issue transition bonds secured by the transition property and to perform any activity related thereto
- Prudential Oil & Gas, L.L.C. [14] – no current operations
- Southern Gulf Railway LLC[15] – owns several miles of railroad track constructed in Louisiana primarily for the purpose of transporting coal for use as boiler fuel at the Nelson Unit 6 generating facility

II. Entergy has the following service company subsidiaries:

A. Service Companies

- Entergy Services, LLC
- Entergy Enterprises, Inc.
- Entergy Operations, Inc.
- Entergy Nuclear Operations, Inc.

B. General Description of the Service Companies

1. Entergy Services, LLC (ESL), a Louisiana limited liability company indirectly-owned by Entergy, provides general executive, management advisory, administrative, accounting, legal, regulatory, engineering, and other services primarily to the regulated retail

[14] See footnote 10.
[15] See footnote 11.

operating companies of Entergy. ESL is authorized to conduct business as a service company under the Public Utility Holding Company Act of 2005 and is subject to the oversight of Federal Energy Regulatory Commission (FERC). ESL was formed to provide services that one or more of the regulated retail operating companies require on an on-going basis when it is more cost-effective for one group to provide services than for each regulated retail operating company to do so separately. In addition, ESL provides services to Entergy's other regulated affiliates and non-regulated affiliates when special skills are required that are available at ESL but are not available at the regulated or non-regulated affiliate.

ESL bills the costs of providing services to Entergy companies using the principles of cost causation.

Exhibit RMD-7 presents a schematic showing the entities for which ESL performs services. ESL provides services to the regulated nuclear plant owners and can either bill the plant owners directly or ESL can bill Entergy Operations, Inc. for those services and let Entergy Operations, Inc. bill the costs to the appropriate plants. ESL also provides services to the non-regulated nuclear plants.

2. Entergy Enterprises, Inc. (EEI), a Louisiana corporation wholly- and directly-owned by Entergy, provides management services to each of the non-regulated companies. EEI also provides various consulting, administrative, and support services to certain non-regulated affiliates. EEI is a non-utility company that invests in and develops energy-related projects and businesses. EEI has its own

personnel to provide services to certain non-regulated affiliates requiring those services.

3. Entergy Operations, Inc. (EOI), a Delaware corporation wholly- and directly-owned by Entergy, provides nuclear management, operations and maintenance services under contract for the Arkansas Nuclear One, River Bend, Waterford 3, and Grand Gulf 1 nuclear plants, pursuant to operating agreements with EAL (Arkansas Nuclear One), ELL (River Bend and Waterford 3), and SERI (Grand Gulf 1), respectively. EOI provides services to the regulated utility companies on an "at cost" basis, pursuant to the operating agreements. Under PUHCA 2005, EOI is also subject to the oversight of the FERC.

4. Entergy Nuclear Operations, Inc. (ENOI), a Delaware corporation indirectly-owned by Entergy,[16] has provided and/ or is providing nuclear management, operations and maintenance services for the non-utility nuclear plants currently and/or previously owned by Entergy: FitzPatrick, Indian Point, Pilgrim, Palisades, and Vermont Yankee. ENOI also provides high-level management support services to the Cooper Nuclear Station through a services agreement with Entergy Nuclear Nebraska, LLC, which has a support services contract with the Nebraska Public Power District, the owner and operator of the Cooper Nuclear Station. Under PUHCA 2005, ENOI is also subject to the oversight of the FERC.

[16] Entergy Nuclear Operations, Inc. is wholly owned by Entergy Nuclear Holding Company #2, which is wholly owned by Entergy.

III. Entergy Corporation directly owns the following other non-regulated subsidiaries[17]:

A. Non-regulated Subsidiaries:

- Entergy Amalgamated Competitive Holdings, LLC
- Entergy Assets Management Holding, Inc.
- Entergy Finance Holding, Inc.
- Entergy International Holdings, LLC
- Entergy Marketing Services, Inc.
- Entergy Northeast Holdings, LLC
- Entergy Nuclear Holding Company, LLC
- Entergy Nuclear Holding Company #1[18]
- Entergy Nuclear Holding Company #2
- Entergy Nuclear, Inc.
- Entergy Power Marketing Holding I, Inc.
- Entergy Power Marketing Holding II, Inc.
- Entergy Services Holding, Inc.
- Entergy Technology Company
- Entergy TransCo HoldCo, LLC
- Entergy Ventures, Inc.
- Entergy Utility Affiliates Holdings, Inc.
- Entergy Utility Assets Holdings, Inc.
- Entergy Utility Enterprises, Inc.
- Entergy Utility Group, Inc.

[17] The following list excludes the service companies identified in Section II.
[18] Entergy Nuclear Holding Company #1 is owned by Entergy (75%) and Entergy Global, LLC (25%).

- Entergy Utility Holding Company, LLC[19]
- Entergy Utility Property, Inc.
- EUP Holdings, LLC

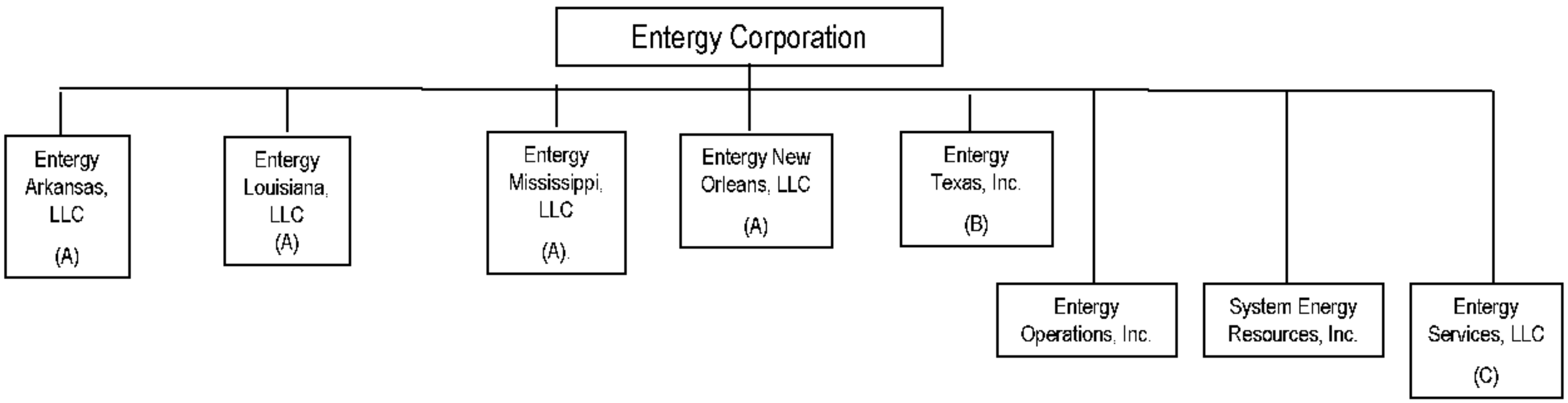
B. General Description of the Business and Operations of Entergy's Non-regulated Subsidiaries:

1. Entergy Amalgamated Competitive Holdings, LLC - Exempt Holding Company.
2. Entergy Assets Management Holding, Inc.- Holding company for non-regulated nuclear operations.
3. Entergy Finance Holding, Inc. – Holding company for non-regulated nuclear operations.
4. Entergy International Holdings, LLC – Holding company.
5. Entergy Marketing Services Inc. – No current operations.
6. Entergy Northeast Holdings, LLC - Holding company for non-regulated nuclear operations.
7. Entergy Nuclear Holding Company, LLC – Holding company for non-regulated nuclear operations.
8. Entergy Nuclear Holding Company #1 – Holding company for non-regulated nuclear operations.
9. Entergy Nuclear Holding Company #2 – Holding company for non-regulated nuclear operations.
10. Entergy Nuclear Texas Holdings, Inc. – Holding company for non-regulated nuclear operations.
11. Entergy Nuclear, Inc. – No current operations.

[19] Entergy Corporation, Entergy Utility Affiliates, LLC, Entergy Utility Assets, LLC, Entergy Utility Enterprises, Inc. Entergy Utility Group, Inc., and Entergy Utility Property, Inc. each hold common membership interests representing 79% of the voting power of Entergy Utility Holding Company, LLC. Unaffiliated third parties and Entergy Utility Affiliates, LLC own preferred membership interests representing 21% of the voting power of Entergy Utility Holding Company, LLC.

12. Entergy Power Marketing Holding I, Inc. – Holding company for non-regulated nuclear operations.
13. Entergy Power Marketing Holding II, Inc. – Holding company for non-regulated nuclear operations.
14. Entergy Services Holding, Inc. - Holding company for service companies.
15. Energy Solutions LLC - No current operations.
16. Entergy Technology Company – Holding company for investments.
17. Entergy TransCo HoldCo, LLC - Holding company for regulated transmission assets (if and when acquired or developed).
18. Entergy Ventures, Inc.- Holding company for businesses with no current operations.
19. Entergy Utility Affiliates Holdings, Inc. – Indirect holding company for regulated assets.
20. Entergy Utility Assets Holdings, Inc. – Indirect holding company for regulated assets.
21. Entergy Utility Enterprises, Inc.- Holding company, formerly known as Entergy Mississippi, Inc.
22. Entergy Utility Group, Inc. – Holding company, formerly known as Entergy New Orleans, Inc.
23. Entergy Utility Holding Company, LLC – Holding company for regulated assets.
24. Entergy Utility Property, Inc.- Holding company, formerly known as Entergy Arkansas, Inc.
25. EUP Holdings, LLC - Owns 90% in a partnership

# ENTERGY CORPORATION AND ITS REGULATED SUBSIDIARIES

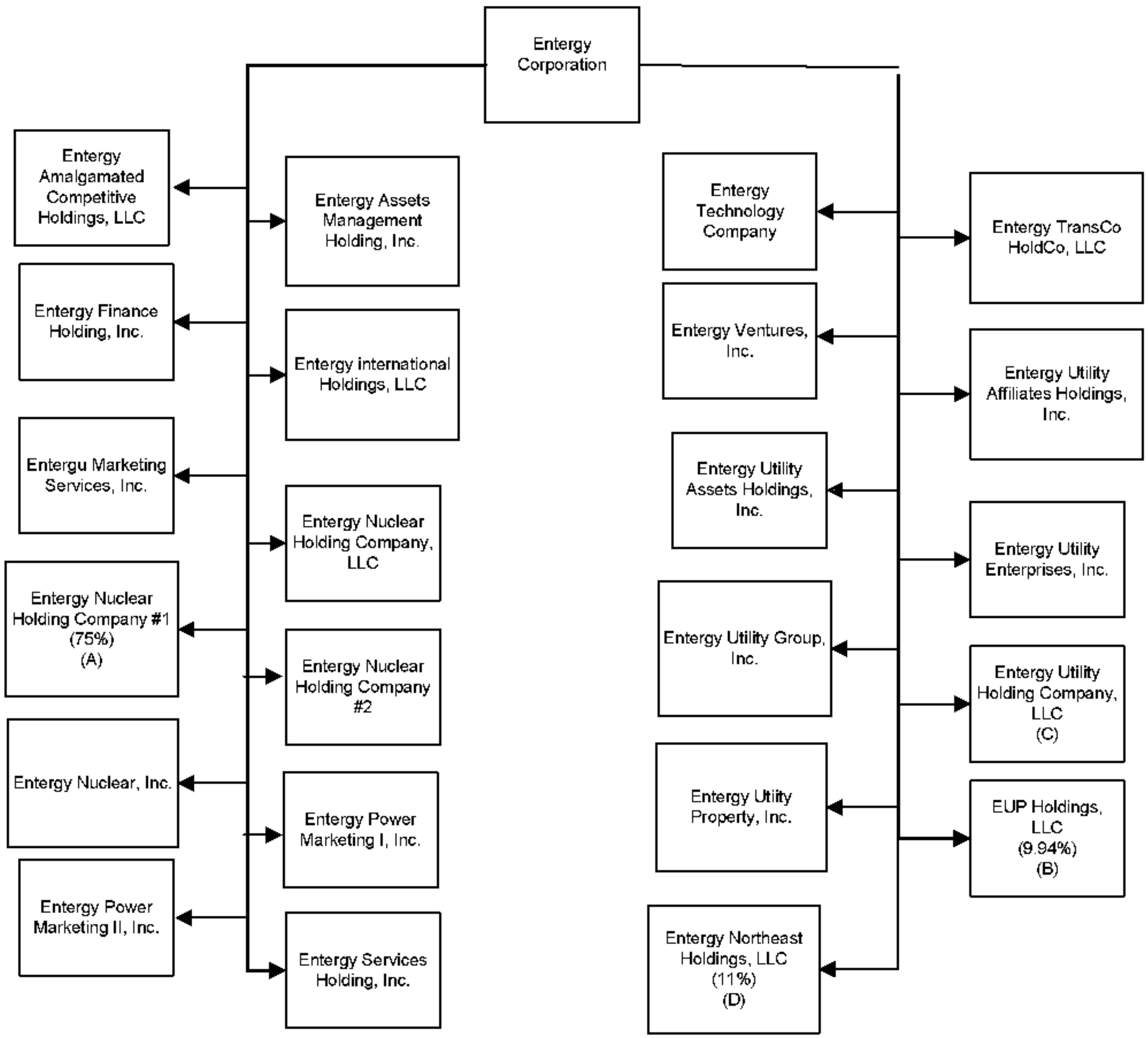



(A) Subsidiary of Entergy Utility Holding, LLC.

(B) Unaffiliated third parties own Class A. preferred stock, and Entergy Corporation owns Class B preferred stock, together representing 21% of the voting power of Entergy Texas, Inc.

(C) A subsidiary of Entergy Services Holding, Inc.

Entergy Corporation and its Non-Regulated Direct Subsidiaries
Effective date: 01/01/2022




(A) Entergy Global, LLC owns the remaining 25%..

(B) Entergy Utility Property, Inc. owns the remaining 90.06%.

(C) Entergy Corporation, Entergy Utility Affiliates, LLC, Entergy Utility Assets, LLC, Entergy Utility Enterprises, Inc. Entergy Utility Group, Inc., and Entergy Utility Property, Inc. each hold common membership interests representing 79% of the voting power. Unaffiliated third parties and Entergy Utility Affiliates, LLC own preferred membership interests representing 21% of the voting power.

(D) Ownership is divided into Class A Common-Entergy Nuclear New York Investment Company, LLC owns 8.81%, Entergy Corporation owns .11%, Entergy Power Marketing Properties, LLC owns 9.72%, Entergy Power Marketing Holding I, Inc. owns 36.34% and Entergy Power Marketing Holding II, Inc. owns 8.28%; and Class B Common-Entergy Nuclear Indian Point 2, LLC owns 22.0%, Entergy Nuclear Indian Point 3, LLC owns 7.91% and Entergy Nuclear Palisades, LLC owns 6.83%.

This exhibit contains voluminous information that is being provided electronically.

This exhibit contains voluminous information that is being provided electronically.

# SERVICE AGREEMENT

THIS AGREEMENT, made and entered into by and between Entergy Services, Inc. (hereinafter referred to as Services) a corporation organized under the laws of the State of Delaware, and EGS Holdings, Inc. (hereinafter referred to as Client Company) a limited liability company organized under the laws of the State of Texas with its principal place of business at 2001 Timberloch Place, The Woodlands, Texas 77380.

## WITNESSETH THAT:

WHEREAS, in 1963, the Securities and Exchange Commission entered an order under the Public Utility Holding Company Act of 1935 authorizing the organization and conduct of business of Services, a wholly-owned subsidiary of Entergy Corporation (hereinafter referred to as Entergy or the Entergy System); and

WHEREAS, Services is organized, staffed and equipped to render services as herein provided to Entergy and its associated companies (hereinafter referred to as Client Companies), with whom Services is entering into agreements in the form hereof; and

WHEREAS, economies and increased efficiencies will result from the performance by Services of certain services for the Client Companies; and

WHEREAS, Services is willing to render such services at cost, determined in accordance with applicable rules and regulations of the Federal Energy Regulatory Commission (hereinafter referred to as the Commission) under the Federal Power Act, as amended by the Public Utility Holding Company Act of 2005 (hereinafter referred to as the Act) except that there will be no charge for the use of the initial equity capital of Services amounting to $20,000;

NOW, THEREFORE, in consideration of the premises and of the mutual agreements herein, the parties hereto agree as follows:

I. <u>AGREEMENT TO FURNISH SERVICES</u>

Services agrees to furnish to Client Company, upon the terms and conditions hereinafter set forth, such of the services described in Exhibit I hereto at such times, for such periods and in such manner as Client Company may from time to time require. (Reference herein to Exhibit I shall mean said Exhibit as it shall be in effect from time to time with amendments thereof or supplements thereto). Services will, as and to the extent required for Client Company, keep itself and its personnel available and competent to render such services to Client Company, to the extent it may be authorized so to do by Federal and State agencies having jurisdiction. Services will also provide for Client Company such special services not described in Exhibit I as Client Company may require and which Services concludes it is competent to perform.

In supplying the various services provided for under this agreement, Services may arrange for the services of such executives, accountants, financial Advisers, technical advisers, attorneys, engineers and other persons with the necessary qualifications and experience as are required for or pertinent to the rendition of such services.

Services, after consultation with Client Company, may arrange for the services of non-affiliated experts, consultants and attorneys in connection with the performance of any of the services supplied under this agreement.

## II. AGREEMENT TO TAKE SERVICES

Client Company agrees to take from Services such of the services described in Exhibit I as are required from time to time by the Client Company. Client Company further agrees to take from Services such other general or special services, whether or not described in Exhibit I and whether or not now contemplated, as Client Company may from time to time require and Services shall conclude it is competent to perform.

## III. COMPENSATION AND ALLOCATION

As compensation for services rendered (as provided in Section II above) to it by Services, Client Company hereby agrees to pay to Services the cost of such services. Bills will be rendered for the amount of such costs on or before the 15th day of the succeeding month and will be payable on or before the 25th day of such month. The methods for the determination and the allocation of the cost of services to be paid by Client Company are set forth in Exhibit II hereto.

IV. <u>CLIENT COMPANIES</u>

Client Companies will consist of Entergy and its associated companies; all such companies will be served at cost as provided in Section III and Exhibit II.

V. TERM OF AGREEMENT – MODIFICATION

This agreement shall become effective as of January 1, 2008, and shall continue until terminated as of the end of any calendar year by either party giving to the other at least 60 days written notice of its intention so to terminate.

This agreement shall be subject to the approval of any state commission or other regulatory body whose approval is, by the laws of said state, a legal prerequisite to the execution and delivery or the performance of this agreement.