

1 Q87. WHY ARE CORPORATE SECURITY SERVICES REASONABLE AND
2 NECESSARY?

3 A. Corporate Security services are necessary to maintain a secure and safe
4 environment while conducting business for employees, contractors, customers, and
5 visitors. Examples of services include facility security, site surveys, crime
6 prevention, investigations, and homeland security. Corporate Security services are
7 necessary to develop programs that are geared to crime prevention and protection
8 of persons and assets. Security investigations may include external crimes and/or
9 internal fraud. Corporate Security also includes programs that protect against
10 threats of terrorism and other forms of violence directed at our industry or facilities.
11 The primary function of security programs is to prevent incidents from occurring
12 through applications of physical security, education, and training.

13 ESL tracks every security-related incident reported in the system, and the
14 tracking results support the need for Corporate Security services. A third-party
15 vendor is employed to manage this process, 24 hours a day, seven days a week, and
16 the resulting report of incidents is referred to as the ethics line incident tracking log.
17 The ethics line incident tracking log indicates that crime trends in areas where
18 Entergy operates, including ETI, demonstrate a definite need for security services
19 to safeguard Entergy's facilities and protect personnel and assets.

20 In addition, the threat of terrorism has had a significant impact on the
21 electric utility industry. As a result, Corporate Security directs efforts and
22 coordinates with state, local, and federal law enforcement agencies to develop
23 programs that protect our facilities and personnel from such acts.

1 Q88. PLEASE DESCRIBE THE SERVICES PROVIDED BY THE CONTINUOUS
2 IMPROVEMENT ORGANIZATION.

3 A. Continuous improvement is a key priority in our journey to be the premier utility.
4 To facilitate a consistent approach to continuous improvement across the
5 enterprise, the CI organization was formed in May 2020. CI's vision is to mature
6 and engage the enterprise to a level where continuous improvement is embedded in
7 our culture and is part of our day-to-day work. Broadly, CI provides the following
8 services: business unit strategic planning and opportunity shaping, CI capability
9 building and partnering with the business units for CI solution delivery.
10

11 Q89. WHY ARE CONTINUOUS IMPROVEMENT SERVICES REASONABLE AND
12 NECESSARY?

13 A. CI services are reasonable and necessary to enable, consult, and guide the
14 organization to creating sustainable value for our stakeholders by creating
15 headroom in the enterprise to reinvest in enterprise strategies, facilitate financial
16 strategies and impact other identified value levers across the enterprise and
17 stakeholder groups. CI is necessary to drive the evolution of the culture to
18 continuous improvement mindset and to enable the workforce with the skills,
19 capabilities, and tools to execute CI in their everyday work as well to execute on
20 the larger, cross-functional efforts as they arise.

1 Q90. DID ETI NEED THE SERVICES PROVIDED BY THE ADMINISTRATIVE
2 SERVICES CLASS DURING THE TEST YEAR?

3 A. Yes. The Administrative Services Class provides essential services to ETI that
4 supports its core business, such as rent for ETI's offices, maintenance for its
5 buildings, administrative support for ETI's employees, and secure and safe work
6 environments for ETI's employees, contractors, customers, and visitors. All
7 services provided to ETI for this class are necessary for the functioning of a utility
8 company with a significant number of geographically dispersed employees.

9

10 Q91. ARE THE SERVICES PROVIDED BY THE ADMINISTRATIVE SERVICES
11 CLASS DUPLICATED BY ESL OR BY ANY OTHER ENTITY?

12 A. No. There is no overlap of services from other business units within ESL or from
13 other Entergy affiliates, nor are these services duplicated by any outside entity.

14

15 **B. Overview of Administrative Services Class Costs and Billing Methods**

16 Q92. WHAT IS THE TOTAL ETI ADJUSTED AMOUNT FOR THE
17 ADMINISTRATIVE SERVICES CLASS DURING THE TEST YEAR?

18 A. The Total ETI Adjusted amount for this class of services is \$1,507,914. Nearly all
19 of these costs were allocated.¹⁰ The following table summarizes this information
20 for the Administrative Services Class. The following table summarizes this
21 information for the Administrative Services Class:

¹⁰ 0.07% of the costs were directly billed.

Table 7: Administrative Services Class - Total ETI Adjusted Amount¹¹

Class	Total Billings	Total ETI Adjusted		
		Amount	% Direct Billed	% Allocated
Administrative Services	\$68,040,719	\$1,507,914	15%	85%

The information in Table 7 is supported by the same exhibits used to support the affiliate costs for the IT Class and the Supply Chain Class—Exhibits DDR-A through DDR-D. For a detailed explanation of the information contained in these exhibits, please refer to Mr. Dumas’s testimony.

Q93. ARE THERE ANY PRO FORMA ADJUSTMENTS TO THIS CLASS?

A. Yes. Like the IT Class and Supply Chain Class, Exhibit DDR-D contains the pro forma adjustments for the Administrative Services Class, as well as the witnesses who sponsor the adjustments.

Q94. WHAT ARE THE MAJOR COST COMPONENTS OF THE CHARGES FOR THE ADMINISTRATIVE SERVICES CLASS?

A. The \$1,507,914 is comprised of the following major components:

¹¹ **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 DDR-A, DDR-B, and DDR-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.

Table 8: Administrative Services Class Major Cost Components*

Cost Component	Cost (\$)	% of Total
Payroll and Employee Costs	\$997,730	66%
Outside Services	\$245,050	16%
Service Company Recipient	\$140,917	9%
Office and Employee Expenses	\$73,491	5%
Other	\$50,725	3%
Total	\$1,507,914	100%

* Amounts may not sum to 100% due to rounding.

As Table 8 shows, Payroll and Employee Costs comprised 66% of the costs for the Administrative Services Class. Ms. Raeder discusses the reasonableness and necessity of these costs in her direct testimony. Outside Services, which includes management fees and other contract work for Cushman & Wakefield and Aramark Corporation (both addressed in this testimony) and other maintenance contracts, comprises 16% of ETI's total costs. The Service Company Recipient category represents the services that ESL provides to itself, which are billed to its affiliates, including ETI. This component represents 9% of the Total ETI Adjusted amount for the Administrative Services Class. Mr. Dumas explains the service company recipient billing process in his testimony. Finally, Office and Employee Expenses represent 5% of the costs. These costs consist primarily of building rent and utility expenses for ETI that flow through the Administrative Services Department and relatively small amounts of office and general expenses (e.g., supplies, postage, and other general office expenses); employee expenses (e.g., car mileage and local travel expenses); and telecommunications expenses (e.g., long distance telephone charges).

1 Q95. HOW DOES THE ADMINISTRATIVE SERVICES CLASS RECORD AND
2 BILL APPROPRIATE COSTS FOR THE SERVICES PROVIDED TO ETI?

3 A. Like the other classes I have described, the Administrative Services Class uses
4 project codes to capture the cost of specific groups under this class of service. For
5 each project code, a billing method is selected that corresponds to the driver of that
6 cost of service. Primary cost drivers for the services provided are (1) space (square
7 footage) occupied, (2) server and mainframe usage, (3) total assets, (4) direct
8 charges to ETI, and (5) total number of employees.

9 These five cost drivers constitute the basis for the five predominant billing
10 methods that account for the vast majority of the Administrative Services Class of
11 affiliate costs charged to ETI for which recovery is sought. These are appropriate
12 cost drivers for these services because they reflect the basis that gives rise to the
13 costs.

14

15 Q96. WITH REGARD TO THE PRIMARY COST DRIVERS USED TO CHARGE
16 COSTS TO OPERATING COMPANIES INCLUDING ETI, HOW OFTEN DO
17 YOU UPDATE THE SPACE OCCUPIED, SERVER AND MAINFRAME
18 USAGE OR NUMBER OF EMPLOYEES SERVED?

19 A. The Administrative Services Class gathers information annually to determine how
20 much space each business unit occupies. The information is gathered through
21 discussions with department management and through field measurement. The
22 proportion of space assigned to each of company is adjusted as appropriate and the
23 square foot billing allocation is recalculated.

1 Statistics underlying the server and mainframe usage cost driver, which
2 applies to the O&M expense of the data centers, are updated quarterly by IT and
3 the Chief Accounting Officer (“CAO”) Organization. The total assets statistics are
4 updated annually by the CAO Organization.

5
6 Q97. WHAT WERE THE FOUR PREDOMINANT BILLING METHODS USED FOR
7 THE ADMINISTRATIVE SERVICES CLASS OF SERVICES?

8 A. The predominant billing methods were SQFTALLC, ASSTSALL, DIRECTTX,
9 and EMPLOYAL. For the Test Year, these four billing methods were used for 92%
10 of the Total ETI Adjusted costs associated with the Administrative Services Class.

11 These billing methods are appropriate because they are based on cost
12 causation principles. For a detailed explanation of these predominant billing
13 methods and why they are appropriate for the project codes to which they are
14 assigned, please refer to Exhibit DDR-9.

15
16 Q98. YOU HAVE ADDRESSED 92% OF THE TOTAL ETI ADJUSTED COSTS
17 ASSOCIATED WITH THIS CLASS. PLEASE ADDRESS THE REMAINING
18 8%.

19 A. The remaining 8% of costs are billed through the use of other billing methods.
20 These billing methods are provided in Exhibit DDR-B.

1 Q99. HAVE YOU DETERMINED THAT THE APPROPRIATE PROJECT CODES
2 AND BILLING METHODS WERE USED FOR THE REMAINING 8% OF THE
3 TOTAL ETI ADJUSTED AMOUNT ASSOCIATED WITH THIS CLASS?

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

11
12 Q100. HOW DOES ENTERGY ENSURE THAT THE COSTS CHARGED ARE NO
13 MORE THAN THE AMOUNT CHARGED TO OTHER ENTITIES FOR THE
14 SAME OR SIMILAR GOODS OR SERVICES?

15 A. Like with the IT Class and the Supply Chain Class described above, each class is
16 comprised of project codes and each project code is assigned one billing method
17 based on cost causation principles. So, while several organizations could bill to a
18 single project code, the billing method for that project code remains the same
19 ensuring that the unit price charged to ETI is no higher than the unit price charged
20 to other affiliates for the same or similar services and represents the actual cost of
21 the services.

C. The Costs for the Administrative Services Class are Reasonable and Necessary

Q101. ARE THE CHARGES FOR THE ADMINISTRATIVE SERVICES CLASS REASONABLE AND NECESSARY?

A. Yes, the charges for the Administrative Services Class are reasonable and necessary. As described above with respect to the IT Class and Supply Chain Class, the Administrative Services Class implements budgets and cost control measures. In addition, the Administrative Services Class outsources services to specialized companies, which ensures that Entergy is paying market rates for quality services. There are also benchmarking studies that support the reasonability of the groups comprising the Administrative Services Class, which are discussed below.

Q102. WHAT WERE ETI COSTS FOR THE ADMINISTRATIVE SERVICES CLASS FOR 2018 THROUGH THE TEST YEAR?

A. Total affiliate O&M charges to ETI for each of the past three calendar years and the Test Year for this class of services are shown in Table 9 below. These cost trends have been adjusted to remove Corporate Aviation costs and Nuclear and Gas department costs.

Table 9: ETI Costs for Administrative Services 2018-2021

Class	2018	2019	2022	Test Year
Administrative Services	\$1,229,332	\$1,213,172	\$1,555,529	\$1,507,914

1 As shown by the table above, the level of charges to ETI for services
2 provided by the Administrative Services Class has remained consistent.

3
4 **Q103. PLEASE DESCRIBE THE BUDGETING AND COST CONTROL PROCESS**
5 **THAT SUPPORT THE REASONABLENESS OF THE CHARGES FOR THE**
6 **ADMINISTRATIVE SERVICES CLASS.**

7 A. As I previously mentioned, the Entergy's overall budgeting process is explained by
8 Mr. Sperandeo. Once the budget is approved, Administrative Services monitors its
9 actual costs to the budgeted costs through the cost reports, which are available
10 electronically to department management through various cost reporting systems.
11 These cost reports compare a department's actual charges to budgeted charges on
12 a monthly and year-to-date basis and provide several ways to review the data
13 (e.g., by project, activity, and resource codes). Each department manager
14 responsible for his or her department's budget and must explain variances between
15 actual charges and budgeted amounts. Executive management is also involved in
16 ongoing review of cost reporting.

17

18 **Q104. HOW DOES THIS ENSURE THAT COSTS ARE REASONABLE?**

19 A. As explained above, the cost reports allow management at all levels to monitor
20 actual costs in comparison with budget amounts. The controls resulting from
21 detailed budget preparation and cost reporting, combined with ongoing
22 management reviews, ensure that expenses and capital costs are controlled and
23 ensures that ETI's affiliate and non-affiliate costs are reasonable.

1 Q105. SEPARATE FROM THE BUDGETING PROCESS, DOES THE
2 ADMINISTRATIVE SERVICES CLASS UNDERTAKE OTHER MEASURES
3 OR INITIATIVES TO CONTROL COSTS OR IMPROVE SERVICES FOR THE
4 ADMINISTRATIVE SERVICES CLASS?

5 A. Yes. For example, the Administrative Services Class has aggressively pursued
6 outsourcing to help reduce costs. The Administrative Services Class also performs
7 yearly benchmarking of its major functions. In addition, to improve its services,
8 the department also conducts periodic internal customer satisfaction surveys.
9

10 Q106. PLEASE DESCRIBE WHAT SERVICES ARE OUTSOURCED AND HOW
11 OUTSOURCING IS BENEFICIAL.

12 A. The Administrative Services Class has aggressively pursued outsourcing to help
13 reduce costs. For example, the majority of services provided by Facility Planning
14 & Operations and Administrative Support, including management of most of these
15 services, were outsourced to Cushman & Wakefield of Texas, Inc., effective
16 January 1, 2000. Cushman & Wakefield has facilities/portfolio management as a
17 core competency and manages approximately 800 million square feet of
18 office/facility space in the United States and 1.6 billion square feet worldwide.
19 Additionally, Entergy's conference center management is outsourced to Aramark.
20 These companies are better equipped to manage the facilities and can do so at a
21 lower price than Entergy would be able to achieve.

1 In addition to facilities maintenance, the Administrative Services
2 Department has also outsourced copy center services, mail delivery services, and
3 courier services.

4
5 **Q107. DOES ENTERGY MONITOR THE COST-EFFECTIVENESS OF SERVICES**
6 **PROVIDED TO ETI BY THE ADMINISTRATIVE SERVICES CLASS?**

7 A. Yes. Entergy conducts periodic reviews of expenditures, as well as metrics
8 designed to improve processes and measure performance, to ensure that costs are
9 at reasonable levels for the scope of services. When services are outsourced to
10 outside vendors, the vendors are subject to a competitive bidding process that is
11 required by Entergy's Corporate Policy (described earlier in my testimony). The
12 competitive bidding process ensures that Entergy is receiving quality services for
13 market-competitive prices. After the outside vendor is selected, Entergy monitors
14 the vendor's performance and the costs incurred. For example, an ESL Contract
15 Manager oversees the Cushman & Wakefield contract and monitors performance
16 and costs incurred under the contract.

17 As explained above, the Administrative Services Class also adheres to
18 Entergy's budgeting process that includes management review and approval of
19 proposed expenditure levels.

1 Q108. CAN YOU PROVIDE ANY OTHER EVIDENCE IN SUPPORT OF THE
2 REASONABLENESS OF THE COSTS FOR THE ADMINISTRATIVE
3 SERVICES CLASS.

4 A. Yes, please see below for a discussion of the reasonableness of the costs for each
5 of the Administrative Services Class subgroups discussed previously.
6

7 **1. Corporate Real Estate**

8 Q109. ARE THE COSTS FOR THE CORPORATE REAL ESTATE GROUP
9 REASONABLE?

10 A. Yes, it is. The costs for the Corporate Real Estate group are allocated to ETI and
11 the EOCs based on the square footage occupied. Costs directly attributed to ETI
12 are charged to ETI and are not allocated through the use of an allocation factor.

13 ETI's costs are reasonable as demonstrated by the comparative evaluations
14 performed prior to obtaining a new lease. Acquiring leased space is a market
15 competitive activity that includes: performing site searches, market research, due
16 diligence, appraisals, surveys, negotiations, financial analysis, legal review, and
17 risk management review. Alternatives for space are compared using the techniques
18 described above to determine the best real estate solution at a reasonable cost.
19

20 Q110. DESCRIBE ENTERGY'S PROCESSES USED TO MONITOR AND CONTROL
21 COSTS ASSOCIATED WITH THIS GROUP.

22 A. As part of its planning function, Corporate Real Estate analyzes each facility to
23 ensure that the space is used effectively and meets company strategy and

1 operational objectives. It identifies and implements plans for space consolidation
2 and asset redeployment. This process has reduced the square footage leased and
3 rent costs over the last several years with the benefits of these reductions being
4 passed on to ETI and ultimately ETI's customers. Further, the Corporate Real
5 Estate group performs periodic audits of leased buildings' operating expenses.
6 These audits ensure that ETI's expenses associated with leased spaces are
7 calculated properly.

8

9 Q111. HOW DOES ENTERGY COMPARE WITH ITS PEER GROUP WITH
10 RESPECT TO ITS COSTS FOR CORPORATE REAL ESTATE?

11 A. Favorably. Entergy's headquarters, regional offices and service centers ranked at
12 or below the median value for Total Maintenance and Janitorial Costs as compared
13 to 26 peer group companies in the IFMA Utilities Council 2021 Benchmarking
14 Study. The results of this study are attached.

15

16 **2. Facility Planning & Operations**

17 Q112. IS THE COST OF SERVICES PROVIDED BY THE FACILITY PLANNING
18 & OPERATIONS GROUP REASONABLE?

19 A. Yes. The cost of the Facility Planning & Operations services provided is consistent
20 with those in the industry, as demonstrated by Entergy's performance in the most
21 recent benchmark report (the results of which are provided in HSPM
22 Exhibit DDR-11). Two sets of metrics are used in the benchmark study:

- 1 maintenance cost per gross square feet and custodial cost per area cleaned in square
2 feet. The Entergy Companies are:
- 3 a. First quartile in service centers total maintenance cost (building and
4 grounds) per gross square feet and first quartile in building
5 maintenance per gross square feet;
 - 6 b. Second quartile in regional office total maintenance (building and
7 grounds) cost per gross square feet and third quartile in building
8 maintenance cost per gross square feet (\$0.02 away from second
9 quartile);
 - 10 c. Second quartile in headquarters total maintenance (building and
11 grounds) cost per gross square feet and third quartile in building
12 maintenance cost per gross square feet (\$.02 away from second
13 quartile);
 - 14 d. Second quartile in headquarters custodial cost per area cleaned in
15 square feet;
 - 16 e. Second quartile in regional office custodial cost per area cleaned in
17 square; and
 - 18 f. Second quartile in service centers office custodial cost per area
19 cleaned in square feet.

1 Q113. DESCRIBE THE CONTROLS AND PROCESSES THAT ARE USED TO
2 MONITOR AND REVIEW THE COSTS ASSOCIATED WITH THE FACILITY
3 PLANNING & OPERATIONS GROUP.

4 A. ESL has a designated contract manager, whose primary responsibility is to oversee
5 the Cushman & Wakefield contract and monitor the performance and costs incurred
6 under the contract. The Approval Authority Policy also dictates several layers of
7 management review prior to approval of the Cushman & Wakefield invoices. The
8 Entergy Companies develop an overall scorecard that tracks Cushman & Wakefield
9 performance. Several of the individual goals are specifically designed to monitor
10 and measure how well Cushman & Wakefield is performing relative to overall
11 spending and managing cash flow. The Entergy Companies have monthly meetings
12 to discuss actual costs and to develop action plans if targets are not being met.

13
14 **3. Administrative Support**

15 Q114. DESCRIBE THE CONTROLS AND PROCESSES THAT ARE USED TO
16 MONITOR AND REVIEW THE COSTS ASSOCIATED WITH THE
17 ADMINISTRATIVE SUPPORT GROUP.

18 A. Administrative Support relies on measures and process controls to monitor and
19 evaluate the costs of service. The processes by which data is collected and
20 measured include things such as PBX/Receptionist number of calls handled,
21 conference rooms scheduled with percent utilization, and mail piece cost. These
22 metrics are used to confirm that staffing and equipment/infrastructure are consistent
23 with volumes driven by customer demands.

1 Q115. WHAT DOCUMENTS, REPORTS, OR OTHER DATA COMPILATIONS ARE
2 GENERATED IN CONNECTION WITH THESE CONTROLS AND
3 PROCESSES, AND HOW ARE THEY USED TO ENSURE THAT THE COSTS
4 ASSOCIATED WITH THIS GROUP ARE REASONABLE?

5 A. On a monthly basis, data is collected on each of the key processes within the
6 Administrative Support Group. This data includes the receptionist/PBX operators,
7 conference room scheduling, mail services, copier management, copier paper, and
8 copy centers. Examples of data collected include quantity and cost information.
9 Data is gathered monthly, compared to budgeted costs, and significant variances
10 are evaluated. In-house measurements are generated monthly, quarterly, or semi-
11 annually depending on the nature of the process. Based on this data, metrics are
12 developed and evaluated to determine the proper resources required to deliver
13 services. Invoices are reviewed by Cushman & Wakefield service coordinators
14 against contracted pricing to confirm accuracy in addition to confirmation of
15 delivery of the service in question.

16 In addition, Administrative Support meets periodically with key vendors
17 such as Xerox (copier services), Express Courier (courier services), and Aramark
18 (conference center management) to discuss process improvements, performance,
19 and areas for further cost reductions.

4. Corporate Security

Q116. PLEASE DESCRIBE THE CONTROLS AND PROCESSES THAT ARE USED TO MONITOR AND REVIEW THE COSTS ASSOCIATED WITH THE CORPORATE SECURITY GROUP.

A. Specific services associated with the delivery of Corporate Security services (such as contract guard services) are primarily outsourced. Market value for the services is established primarily through a competitive bidding process or through baseline negotiation of competitive bids. In addition, review and analysis of monthly budget variance reports allows continuous monitoring of associated costs. All security guard services in Texas are under a system-wide contract with Allied Universal Security. The contract was awarded to Allied Universal Security after a competitive bid process.

It should be noted that, in addition to negotiating for the best financial advantage to the Company for contract security services, the Company continually looks for ways to improve efficiencies and cost advantage in this area.

5. Continuous Improvement

Q117. IS THE COST OF THIS GROUP REASONABLE?

A. Yes. Labor costs make up the majority of the overall costs of this group. The costs related to this group are reasonable because a couple of leadership positions were created, but the remaining positions were transferred from other parts of the organization.

1 Q118. DESCRIBE THE CONTROLS AND PROCESSES THAT ARE USED TO
2 MONITOR AND REVIEW THE COSTS ASSOCIATED WITH THIS GROUP.

3 A. The vice president of the organization receives a detailed spending report on a
4 monthly basis. The costs are reviewed with the accounting department to ensure
5 spending is within the budget of the group. Any variances that arise are subject to
6 management action if required. Management action may include, but is not limited
7 to, reducing spending in some areas or delaying planned work that may cause a
8 budget overrun.

9

10 **D. Summary of Administrative Services Class**

11 Q119. PLEASE SUMMARIZE YOUR CONCLUSION WITH REGARD TO THE
12 ADMINISTRATIVE SERVICES CLASS.

13 A. In summary, I conclude that the goods and services provided to ETI by the Supply
14 Chain Class as well as the costs for those goods and services are reasonable and
15 necessary. In addition, Entergy's application of its billing methodology ensures
16 that the costs allocated to ETI reflect the actual costs of providing the services and
17 are no higher than the prices charged to other affiliates for the same or similar
18 services. As such, ETI should be allowed to recover its affiliate expenses.

19

20 Q120. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

21 A. Yes.

AFFIDAVIT OF DAWN D. RENTON

THE STATE OF LOUISIANA)

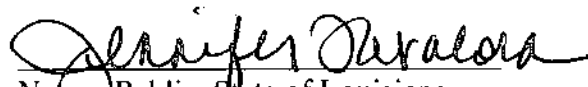
ORLEANS PARISH)

This day, Dawn D. Renton 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 Dawn D. Renton. 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.


Dawn D. Renton

SUBSCRIBED AND SWORN TO BEFORE ME, notary public, on this the 8th
June
day of ~~May~~ 2022.


Notary Public, State of Louisiana

My Commission expires:

upon my death

JENNIFER B. FAVALORA
Notary Public (ID# 57639)
Orleans Parish, Louisiana
Commission Issued For Life

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IT Class Predominant Billing Methods

Billing Allocation Methodology	Basis for Selection of Billing Allocation Methodology
APPSUPAL	For the project codes assigned to this billing method, the cost driver is server and mainframe usage. For example, Project Code F5PPDCOPS2 (Data Center Engineering & Ops Mgmt) captures costs associated with the management of Entergy's data center environment and remote site locations having servers, storage and network infrastructure hosting requirements, at Entergy's data centers, including the management of Infrastructure applications, servers, storage, the data center LAN, etc. Therefore this billing method which is based on server usage is an appropriate method by which to allocate these costs.
PKLOADAL	For the project codes that use this billing method, the cost driver is based on the ratio of each client company's peak load to the peak load at the time of all the companies' peak load. For example, Project Code F3PCW54035 (SPO Management Summary) captures and manages costs associated with employee and program expenses, office supplies, and other general and administrative costs for System Planning Operations. The primary activities associated with this project code are managing administrative costs, such as rent office supplies, and general employee and program expenses, as well as telecommunication costs. These costs support the System Operating Organization and should be billed appropriately to all the Entergy operating companies. Because load is an indicator of the relative effort needed to meet the energy resource requirements for each operating company, allocating costs to the operating companies based on load is appropriate.
CUSTEGOP	For the project codes assigned to this billing method, the cost driver is the number of electric and gas customers. For example, Project Code F3PPCDREXP (Customer Digital Roadmap O&M) captures and manages Entergy Labor costs associated with the support of the Customer Service Applications. The primary activities for this code include management of O&M budget for Customer Service System applications; management of Service Level Agreements for Customer Service System applications; management of resources to provide baseline support for Customer Service System applications; management of Third Party IT contracts necessary to support Customer Service System applications; management of software license agreements necessary to support Customer Service System applications; and coordination with customers and Third Party IT service providers on issue resolution. Costs are driven by the number of electric and gas customers in the Entergy operating companies' service area and allocated and billed to the operating companies based on a twelve-month average number of customers and therefore in a manner that reasonably reflects the cause of the cost incurred for this

	service. Therefore, this billing method is appropriate for these types of projects.
EMPLOYAL	For the project codes assigned to this billing method, the cost driver is based on full and part time employee headcount. Typically, this is used as an allocation method for the management of labor. For example, Project Code F3PPITSECR (IT Security & Compliance-Enterprise) captures costs associated with ensuring the confidentiality, integrity, and availability of Entergy information systems and assets, and ensure compliance with applicable cybersecurity laws and regulations. The primary activities associated with this project code are the developing, implementing, and maintaining security controls that enable Entergy to identify, protect, detect, and respond to cybersecurity threats and vulnerabilities which may impact information systems and assets. Cost are driven by the activities necessary to protect Entergy IT assets and systems from cybersecurity threats. Therefore, the most appropriate billing method is EMPLOYAL which allocates charges based on the number of employees all of which have access to the Entergy system regardless if they have a computer.
ITSPENDA	For the project codes assigned to this billing method, the cost driver is based on the amount spent on IT for each business unit. For example, Project Code F3PCFX3290 (IT Business Planning and Governance) captures costs associated with IT business planning (including business continuity planning) and governance support. Activities include developing sourcing strategies, analyzing the impacts to the business, evaluating risks and costs of alternative strategies, facilitating sourcing decisions, and managing implementations. Therefore this billing method, which is based on IT twelve-month total spending, is an appropriate method by which to allocate these costs.
SCPSPALL	For the project codes assigned to this billing method, the cost driver is total Supply Chain spending to ensure a well-maintained and operational software system for Supply Chain material. For example, Project Code F3PPPASPRT (IT Support & Maintenance Asset Suite) captures costs required to support, maintain and operate the Asset Suite software. The primary activities associated with this project code includes work done by the IT application outsourcer to support the system, as well as work performed by IT employees in support of the system, and for software upgrades and software support provided by the software vendor. The billing method is therefore appropriate and best approximates the beneficiaries of the project code.
CAPAOPCO	For the project codes assigned to this billing method, the cost driver is the need to provide support relating to the automation needs of the Entergy Fossil Production business unit. For example, F3PCWE0073 (Fossil Information Technology) captures and manages costs associated with providing dedicated systems consultation, application support, business needs analysis, developing and maintaining IT customer relationships, small application programming, and project management services related to automation needs. The primary activities included in this project code are consultation, application support, analysis, management services, small application programming, and building and maintaining customer relationships. This billing method bills to all operating companies in the Entergy

	System based on capacity therefore no company receives a disproportionate share of the costs and because the services provided under this method are provided to all operating companies.
CUSEOPCO	For the project codes assigned to this billing method, the cost driver is the number of customers in the Entergy service area and appropriate to use for the project codes to which it applies and is based on a twelve-month average number of electric residential, commercial, industrial, government, and municipal customers. For example, F3PCTDDS26 (Utility Management Support O&M), captures and manages costs associated with providing consulting and management services to Distribution Franchises. The Primary Activities associated with this project code are the general management of Customer Service Support, process management and strategic planning, Regulatory Support, and management and consulting services for the distribution franchises. Because costs are driven by the number of customers, it is appropriate to use this billing method.

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Subject Matter Expert: Darlington Fee	Responsible Officer: Julie Harbert	Approved By: Corporate Compliance Committee	

I. POLICY SUMMARY

- This Policy sets forth the requirements for procuring materials, goods and services.
- Requests for procurement of materials, goods and services must be approved in accordance with the Entergy System Approval Authority Policy.
- Supply Chain personnel are responsible for the procurement of all materials, goods and services for Entergy, except as otherwise provided in this Policy.
- All materials, goods and services must be procured through the appropriate buying channel.
- Except as provided in this Policy, Supply Chain personnel are responsible for all required bidding, obtaining supplier quotes, and determination of the appropriateness of purchases of materials, goods and services.
- The retention of Independent Contractors is subject to the Requirements for Procurement of Independent Contractors included at Attachment III.
- This Policy does not address staff augmentation through the retention of contingent workers; refer to the Entergy System Contingent Workforce Management Policy for requirements and guidance.
- Letters of intent may only be issued by Supply Chain after Legal review, pursuant to the Letters of Intent and Preliminary Understandings Policy.
- Requests for exclusion from this Policy should be directed to the Vice President, Chief Supply Officer.
- All employees, agents and contractors of Entergy shall immediately report known, suspected, or potential violations of this Policy by following the procedures described in the Reporting Violations Policy.
- **Please refer to the following detailed Policy for further information.**

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II. DETAILED POLICY

1.0 PURPOSE AND APPLICABILITY

The purpose of this Policy is to establish standards, controls and procedures to be used for the procurement of materials, goods, and services by Entergy System Companies, including regulated and competitive Business Units and legal entities.

This Policy does not address staff augmentation through the retention of contingent workers; refer to the Entergy System Contingent Workforce Management Policy for requirements and guidance.

THIS POLICY APPLIES TO ANY AND ALL EMPLOYEES OF ANY ENTERGY SYSTEM COMPANY, UNLESS OTHERWISE EXPRESSLY EXCLUDED, AS WELL AS AGENTS AND CONTRACTORS OF ANY ENTERGY SYSTEM COMPANY.

THIS POLICY COVERS EMPLOYEES WHO ARE REPRESENTED BY A UNION, EXCEPT THAT ANY CONFLICTING TERMS OF EMPLOYMENT IN A COLLECTIVE BARGAINING AGREEMENT OR OTHER AGREEMENT REACHED WITH THE UNION(S) SHALL CONTROL.

NOTHING CONTAINED IN THIS POLICY SHOULD BE CONSTRUED TO SUGGEST THAT EMPLOYEES OF A PARTICULAR SUBSIDIARY OR AFFILIATE OF ENTERGY CORPORATION ARE ALSO EMPLOYEES OF ENTERGY CORPORATION OR ANY OTHER AFFILIATE OR SUBSIDIARY OF ENTERGY CORPORATION. MOREOVER, THIS POLICY DOES NOT CREATE ANY EMPLOYMENT RELATIONSHIP BETWEEN ANY PERSON AND ANY ENTERGY SYSTEM COMPANY, NOR DOES THIS POLICY CONFER ANY CONTRACTUAL RIGHT TO ANY PERSON TO BECOME OR REMAIN AN EMPLOYEE OF ANY ENTERGY SYSTEM COMPANY.

2.0 REFERENCES AND CROSS REFERENCES

2.1 Entergy System Policies & Procedures:

- 2.1.1 Accounting
- 2.1.2 Affiliate Interactions
- 2.1.3 Aircraft Governance
- 2.1.4 Approval Authority
- 2.1.5 Business Travel & Expense Reimbursement
- 2.1.6 Code of Integrity
- 2.1.7 Contingent Workforce Management Program
- 2.1.8 Corporate Risk Control Standards for Regulated Entergy Businesses
- 2.1.9 Corporate Risk Control Standards for Unregulated Entergy Businesses

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2.1.10 Corporate Risk Standards

2.1.11 Electronic Information Security

2.1.12 Export Controls

2.1.13 Letters of Intent and Preliminary Understandings

2.1.14 Protection of Information

2.1.15 Real Estate

2.1.16 Records Management and Retention

2.1.17 Reporting Violations

2.2 Entergy Accounting Policies & Procedures

2.2.1 Capital Funding Project Approval

2.2.2 Capitalization

2.2.3 Corporate Purchasing Card

2.2.4 Inventory, Materials & Stores Accounting

2.2.5 Storm Credit Card

2.3 Entergy Systemwide Furniture and Space Standards

2.4 Governance for Understanding and Assessing Risk to Data ("GUARD")

2.5 Software Asset Management (SAM) Policy

2.6 How Entergy Buys and Pays Guidelines

3.0 DEFINITIONS

3.1 Alliance Partner - a supplier that provides goods or services to Entergy under certain terms and conditions in order to advance common goals and interests. A list of Alliance Partners is published and maintained by Supply Chain.

3.2 Amendment - an instrument used to document changes to the terms and conditions of an original Contract.

3.3 Approver - the appropriate-level personnel authorizing the request for materials, goods or services per the Approval Authority Policy.

3.4 Astroturfing - the prohibited practice of paying individuals to attend or speak at any public meeting or meetings before any governmental, regulatory, or other agency having oversight over Entergy's operations.

3.5 Blanket Order - a legally enforceable agreement establishing general scope and pricing with a supplier for repetitive services, materials or goods.

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- 3.6 Blanket Order Release** - a legally enforceable document issued pursuant to a Blanket Order for a specified time/project for services or repetitive purchases of materials or goods.
- 3.7 Business Unit** – refer to the Corporate Risk Control Standards (Regulated and Unregulated) for definition.
- 3.8 Capital Work Order** - a document used to (1) establish the basis for tracking capital-funding project costs, (2) transfer capital assets from one legal entity to another, or (3) dispose of capital assets. A Capital Work Order is sometimes referred to as a “Capital Expenditure Authorization.”
- 3.9 Change Order** - a written change to an existing Contract in any form that identifies the appropriate Contract.
- 3.10 Contract** - a legally enforceable document that is Executed between an Entergy System Company and a provider of materials, goods or services that defines the respective parties’ obligations and the terms and conditions that govern them.
- 3.11 Contract Manager** – an employee responsible (relative to a Contract) for: coordinating day-to-day supplier activities; monitoring supplier performance; verifying receipt of billed services; reviewing contractor timesheets, equipment rentals, material receipts, and other applicable documentation supporting the invoiced charges; routing and/or approving invoices; providing accurate monthly accrual information to the appropriate parties; ensuring that Extra Work Authorizations are verified and approved prior to the commencement of work and that total expenditures are within the approved Contract ceiling; and initiating Contract close-out.
- 3.12 Corporate Risk Committee (CRC)** – refer to the Corporate Risk Control Standards - Regulated and Unregulated for definition.
- 3.13 CRC Concurrence Review** – refer to the Corporate Risk Control Standards - Regulated and Unregulated for definition (defined there as *RCRC Concurrence Review* and *UCRC Concurrence Review*, respectively).
- 3.14 Credit Card Exclusions** – include transactions for which Entergy has arranged the following three types of credit cards for payment: Travel and Expense Card, Corporate Purchasing Card, and Storm Credit Card. These credit card transactions are governed by the Business Travel and Expense Reimbursement Policy, Corporate Purchasing Card Policy, and Storm Credit Card Policy, respectively.
- 3.15 Diverse Supplier (Diverse)** - a Qualified Supplier that has been certified as either a small/small disadvantaged, ethnic minority, women, historically under-utilized business zone (HUB zone), veteran- and disabled-veteran-owned, and LGBTQ+ businesses that are at least 51 percent owned, operated and managed by one of these groups.

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- 3.16 Electronic Bidding System** - a software tool that automates the bidding processes associated with Entergy's procurement functions, and the storage and retrieval of bid related documents.
- 3.17 Electronic Document Management System** - a software tool used to store and retrieve Contracts, Purchase Orders and other related procurement documents.
- 3.18 Electronic Procurement System** - an integrated software application that automates Entergy's purchasing-related functions including Contract management, inventory control, and purchasing, with effects on procurement engineering and some accounting functions.
- 3.19 Electronic Support and Knowledge Based System** – a system that supports service management and automates common business processes.
- 3.20 Emergency** - any situation that has resulted or would result in an interruption of service, a significant loss of Entergy System assets, or an imminent health or safety hazard to an employee or the public.
- 3.21 Entergy, Entergy System, Entergy System Company, or Company** - Entergy Corporation and all of its subsidiaries and affiliates in which Entergy Corporation has a direct or indirect majority ownership interest.
- 3.22 Execution** - a step or action, or series of such, that serve to complete a properly approved Contract or other legally enforceable document, which includes formal signature approval by all parties involved.
- 3.23 Extra Work Authorization (EWA)** - a document that describes the change to the Contract's scope of work and the approval to start such work before a formal Change Order is issued to the supplier by Supply Chain.
- 3.24 Field Service Contract** - a legally enforceable document that is Executed between an Entergy System Company and a Qualified Supplier for services, excluding storm services, in which the total amount is less than \$20,000.
- 3.25 General Services Administration Agreement** - an agreement between an Entergy System Company and the Federal Government that establishes purchasing and contracting requirements for awards to Diverse Suppliers. General Services Administration Agreement is sometimes referred to as "Areawide Agreement."
- 3.26 General Services Agreement** – refer to the Corporate Risk Control Standards – Regulated and Unregulated for definition.
- 3.27 GUARD** – Entergy's Governance for Understanding and Assessing Risk to Data process (referenced at Section 2.4 of this Policy).
- 3.28 Independent Contractor** - a worker (or worker-related entity) whose services are engaged by Contract to perform for the Entergy System specialized tasks requiring a high level of skill, discretion, and independent judgment, whose work is not "directed or controlled," directly or indirectly, by the Entergy System, and

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who is not a common-law employee of any Entergy System Company. Refer to Attachment III of this Policy, "Requirements for the Procurement of Independent Contractors."

- 3.29 Initiating Procurement Document** - a written or electronic document (purchase/material request form, Contract requisition form or any written document) as required by the Requester's Business Unit that is forwarded to Supply Chain by the Requester to authorize the purchase of materials, goods or services, pursuant to the Approval Authority Policy.
- 3.30 Lease** – a Contract, or part of a Contract, that conveys the right to control the use of property, plant, or equipment for a period of time in exchange for consideration. The right to control the use of the underlying property, plant, or equipment is conveyed if any of the following conditions is met:
- Entergy has the ability or right to operate the property, plant, or equipment or direct others to operate the property, plant, or equipment in a manner it determines while obtaining or controlling more than 90% of the output or other utility of the property, plant, or equipment; or
 - Entergy has the ability or right to control physical access to the underlying property, plant, or equipment while obtaining or controlling more than 90% of the output or other utility of the property, plant, or equipment; or
 - It is remote (as a probability over the term of the Contract) that parties other than Entergy will take more than 10% of the output or other utility that will be produced or generated by the property, plant, or equipment during the term of the arrangement, and the price that Entergy will pay for the output is neither contractually fixed per unit of output nor equal to the current market price per unit of output as of the time of delivery of the output.
- 3.31 Local Supplier (Local)** – a Supplier that has a contract entity with a presence in a state that has Entergy operations. For a purchase to qualify as Local, the transaction must be procured from a supplier location in the same state as the accounting code block physical location paying for the work.
- 3.32 Nuclear Qualified Supplier** - an approved supplier for Entergy's Nuclear organization, and includes safety-related suppliers, commercial grade item/service suppliers and special-scope suppliers. A Nuclear Qualified Supplier is also a Qualified Supplier.
- 3.33 Payee Based Exclusions** - represent transactions where a payment is made for something other than the procurement of goods or services. Payee Based Exclusions include transactions such as dividends, rights of way, and charitable contributions.
- 3.34 Outsourced Services Providers** - suppliers/service organizations that provide outsourced services. It is common for companies to outsource business tasks or functions to service organizations or specialized service providers. Although Entergy may rely on a service organization to perform outsourced tasks or

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functions, Entergy still retains responsibility (and the associated risks) for the service it provides to customers.

- 3.35 Policy** - this Procurement Policy.
- 3.36 Preferred Supplier** - a supplier that provides specific goods or services to Entergy and has been determined by Supply Chain to meet Entergy's expectations for quality, delivery and/or price, and is also able to respond to unexpected changes. A list of Preferred Suppliers is published and maintained by Supply Chain.
- 3.37 Prime Supplier** - a supplier providing goods, material, equipment and/or services to Entergy and is paid directly by Entergy.
- 3.38 Purchase Order** - the document issued to a supplier authorizing the purchase of materials and goods.
- 3.39 Supplier Based Exclusions** – represent certain transactions that, due to their unique nature or specialty purpose, do not require the engagement of Supply Chain in their execution. Supplier Based Exclusions include but are not limited to transactions initiated by the Office of the Chief Executive (OCE) or the Entergy Corp. Board of Directors.
- 3.40 Sustainability Measures (Sustainable, Sustainability)** - Measures identified by Entergy regarding sustainability commitments and improvements, reporting, and strategy. These measures are related to long-term environmental, social, and governance (ESG) criteria in support of Entergy's ESG commitments in alignment with the United Nations Sustainable Development Goals.
- 3.41 Qualified Supplier** - a supplier providing Entergy with materials, goods or services that have met Entergy's minimum-established requirements and accepted by Supply Chain. A Nuclear Qualified Supplier is also a Qualified Supplier.
- 3.42 Requester** - the person responsible for determining the materials, goods or services desired, and conveying accurate information to the Approver and to Supply Chain.
- 3.43 Request for Proposal (RFP)** - the bid solicitation document(s) issued to bidders by Supply Chain. The RFP contains pertinent information such as technical and commercial requirements, scope, quantities, terms and conditions, deadlines, and instructions to bidders.
- 3.44 Service Organization Control Reports** - examinations undertaken by an auditor to report on controls at an organization (supplier) that provides services to Entergy when those controls are likely to be relevant to Entergy's internal controls or the protection of Entergy's data.

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- 3.45 Storm Logistics Service Contract** - a legally enforceable document that is Executed between an Entergy System Company and a Qualified Supplier for storm services in which the total amount is less than \$100,000.
- 3.46 Supplier Registration System** - a system used to identify and approve service suppliers and Diverse Suppliers, for use based on Entergy's established requirements.
- 3.47 Supplier Safety Pre-Qualification System** – a system used to determine a supplier's safety risk profile and, based on that profile, analyze the supplier's safety records, insurance certificates, and state licenses to ensure Entergy's requirements are met.
- 3.48 Tax (also Taxes)** - any or all sales, use, transaction, gross receipts or similar taxes levied on the purchase of tangible personal property and certain services, including, if applicable, foreign import fees, customs, or duties, or any other federal, state or local governmental charges.
- 3.49 Tax Exemption Documentation** - the documentation Entergy is required to provide to suppliers in order to capture applicable exemptions or exclusions from Taxes.
- 3.50 User Control Considerations** - controls that an Outsourced Service Provider identifies for Entergy to consider implementing to achieve the desired control objectives for effective end-to-end processes.
- 3.51 Vendor Maintenance Database** - an electronic database that contains supplier information (e.g., supplier name, address, tax identification number, North American Industry Classification System codes, etc.).

4.0 **RESPONSIBILITY**

- 4.1 The Vice President, Chief Supply Officer** is responsible for approving any exclusion from this Policy.
- 4.2 The Vice President, Chief Supply Officer or his/her designee(s)** is responsible for the interpretation and administration of this Policy.
- 4.3 Supply Chain personnel** are responsible for:
 - 4.3.1** bidding, obtaining supplier quotes, and negotiation of prices, payment terms, and other terms and conditions, including any terms related to Taxes;
 - 4.3.2** if applicable, providing the supplier with appropriate Tax Exemption Documentation to assure that Entergy minimizes or eliminates Taxes;
 - 4.3.3** ensuring that the Initiating Procurement Document is approved in accordance with the Entergy System Approval Authority Policy prior to issuing Purchase Orders and Contracts;

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- 4.3.4** maintaining evidence of the authority upon which each transaction is executed;
- 4.3.5** ensuring that Purchase Orders (for inventory and non-inventory items) and Contracts are not greater than the amounts authorized by the approved Initiating Procurement Documents;
- 4.3.6** ensuring that the Contract details, including but not limited to, the applicable Entergy System Company, compensation, payment terms, and work start and end dates, match the information contained in the Electronic Procurement System;
- 4.3.7** maintaining and communicating to employees the list of Qualified Suppliers;
- 4.3.8** tracking compliance on the use of available Qualified Suppliers;
- 4.3.9** referring Entergy personnel to the Contingent Workforce Management Policy for purposes of staff augmentation needs;
- 4.3.10** ensuring that the Requester develops a clear scope of work or description of materials, goods or services;
- 4.3.11** ensuring that the Requester provides required information such as accounting code block, invoicing requirements, milestone requirements (i.e., supplier-furnished drawings and inspection reports), invoice support documentation, work start and end dates (if applicable), and equipment specifications;
- 4.3.12** securing and coordinating input from other Company departments, such as Risk Management Services, Legal Services, Tax, and Environmental as needed;
- 4.3.13** if applicable, ensuring that the Office of Corporate Risk Oversight (OCRO) is informed of procurement transactions that contain certain risk provisions as further described in Section 5.4.2;
- 4.3.14** if applicable, advising the applicable Contract Manager on the need to assess if a procurement transaction requires CRC Concurrence Review as further described in Section 5.4.3;
- 4.3.15** ensuring that the Contract amount does not exceed the value reviewed and concurred by the Corporate Risk Committee;
- 4.3.16** ensuring that the GUARD process referenced in Section 2.4 has been completed (if applicable), or an exception has been granted, prior to executing the Contract; and
- 4.3.17** ensuring that Contracts Executed by Supply Chain, as well as other related documents issued thereto, are properly filed in the Electronic Document System and/or Electronic Bidding System, and maintained in

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accordance with the Entergy System Records Management and Retention Policy; and

4.4 The Requester is responsible for:

- 4.4.1** determining the desired materials, goods or services, and conveying to Supply Chain such information and other accurate information as needed and required, including but not limited to detailed work scope, planned work start and end dates, accounting code block, invoicing support documentation requirements and other pertinent data;
- 4.4.2** providing invoice support documentation requirements and milestone requirements (i.e., supplier furnished drawings, inspection reports, equipment specifications, drawings and rental requirements, contractor supplied consumables and small tools, etc.);
- 4.4.3** ensuring availability of funding, preparing Capital Work Orders (where applicable), providing accurate and complete code block information, providing accrual information to the appropriate parties, and obtaining required approval signatures;
- 4.4.4** creating and obtaining proper approval of Initiating Procurement Documents;
- 4.4.5** providing Supply Chain with all other pertinent information requested for the preparation of Contracts; and
- 4.4.6** ensuring that the GUARD process (referenced in Policy Section 2.4) is initiated. Refer to Section 5.4.5.2 for additional details.

4.5 The Contract Manager is responsible for:

- 4.5.1** ensuring that a properly approved Capital Work Order exists (where applicable);
- 4.5.2** consulting with Supply Chain for the purchase of materials, goods and services, when applicable, to discuss sourcing strategies;
- 4.5.3** developing detailed scopes of work or specifications, when applicable, and providing same to Supply Chain for preparation of Requests for Proposals;
- 4.5.4** preparing requisitions and ensuring their approval in accordance with the Entergy System Approval Authority Policy;
- 4.5.5** when applicable, participating in pre-bid meetings with Supply Chain and performing and submitting technical evaluations to Supply Chain;
- 4.5.6** conducting pre-job meetings with suppliers to review site-specific policies and procedures, safety requirements, fitness for duty requirements, and/or other Entergy technical requirements;

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- 4.5.7** understanding Contract requirements, observing and monitoring supplier performance, and notating any issues;
- 4.5.8** documenting and maintaining supplier progress (e.g., through timesheets, review meetings, photographs, and notes in journals);
- 4.5.9** ensuring the supplier meets the requirements of the Contract (technical, cost, scope and schedule) and notifying Supply Chain of any supplier issues, or breach or potential breach of Contract;
- 4.5.10** maintaining records associated with Blanket Releases in accordance with the Records Management and Retention policy;
- 4.5.11** monitoring, reviewing, and verifying supplier invoices up to the authorized Contract ceiling amount;
- 4.5.12** ensuring that the original invoice is supported by appropriate documentation (e.g., timesheets and receipts);
- 4.5.13** ensuring that the supplier's invoices contain the necessary information for payment processing, including Contract number, payment terms and complete code block information;
- 4.5.14** ensuring that supplier invoices are applied to the correct Contract, processed in accordance with the negotiated Contract terms, and paid pursuant to the Entergy System Approval Authority Policy, and that any applicable sales tax is separately entered;
- 4.5.15** monitoring credit memos and ensuring that proper credits or payments for such memos are received from the suppliers and submitted timely to Accounts Payable;
- 4.5.16** ensuring that Supply Chain is notified of Contract completion via written / electronic documentation;
- 4.5.17** ensuring that Contract changes are initiated and approved in accordance with Section 5.8, "Change Orders and Amendments";
- 4.5.18** ensuring that the GUARD process referenced in Section 2.4 is initiated when applicable. Refer to Section 5.4.5.2 for additional details;
- 4.5.19** ensuring that CRC Concurrence Review of procurement transactions is obtained, when applicable (refer to Section 5.4.3 for additional details);
- 4.5.20** requesting and monitoring Service Organization Control Reports (if applicable) on an annual basis to mitigate risk that supplier controls are not working as designed;
- 4.5.21** evaluating whether a Contract contains a Lease or component of a Lease as defined in this Policy and forwarding a copy of the fully executed Contract to Accounting Policy & Research Group at LeaseAccounting@entergy.com; and

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4.5.22 ensuring that Astrourfing does not occur.

4.6 **All employees, agents, contractors, and subcontractors** are responsible for:

4.6.1 ensuring that all materials, goods and services are procured and paid for through the appropriate buy and pay channels;

4.6.2 avoiding the direct or indirect falsification of any record or document that would result in an improper or unauthorized purchase or payment;

4.6.3 the protection of Personal Information and Sensitive Information (as such terms are defined in the Protection of Information Policy) that they share with suppliers. To the extent applicable, employees and agents must abide by the GUARD assessment process referenced in Section 2.4 prior to contracting with such suppliers; and

4.6.4 immediately reporting known, suspected, or potential violations of this Policy by following the procedures described in the Reporting Violations Policy.

5.0 **DETAILS**

5.1 **Buying Channels**

All materials, goods and services must be procured through the appropriate buying channel as described below. See *How Entergy Buys and Pays* document as a reference guide (see Section 2.6). Employees may also refer to the applicable Entergy System policy (see Section 2.1) or applicable Entergy Accounting policy (see Section 2.2) or may contact Supply Chain for guidance on the appropriate buying channel for purchases. As further noted in Section 5.2, the involvement of Supply Chain personnel is not required for the buying channels identified in Sections 5.1.2 through 5.1.5.

5.1.1 **Contracts and Purchase Orders**

5.1.1.1 Generally, Contracts shall be used for the acquisition of services, and Purchase Orders shall be used for the purchase of materials and goods.

5.1.1.2 For Nuclear-specific procurements, a Purchase Order is required for all Nuclear safety-related and permanent plant material purchases.

5.1.1.3 All catalog material maintained in the Electronic Procurement System must be purchased by a Purchase Order, unless procured through the vendor-managed inventory program.

5.1.2 **Accounts Payable Payment Request Form (PRF) Process.**

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- 5.1.2.1** The Accounts Payable PRF system should be used to process payments for transactions that are listed in Attachment II ("Exclusions from the Use of Supply Chain") or as provided through consultation with Supply Chain.
 - 5.1.2.2** Suppliers must send invoices directly to the requesting employee for processing via Accounts Payable's PRF process.
- 5.1.3** Corporate Purchasing Card. The Corporate Purchasing Card may be used for the purchase of materials, goods, and services as provided in the Corporate Purchasing Card Policy.
- 5.1.4** Storm Credit Card. The Storm Credit card may be used for storm-related purchases as provided in the Storm Credit Card Policy.
- 5.1.5** Travel and Expense Card. The travel and expense card must be used for employee business and travel expenses as provided in the Business Travel and Expense Reimbursement Policy.
- 5.2** Involvement of Supply Chain and Supply Chain Requirements. Only Supply Chain is authorized to commit to suppliers. Procurements of materials, goods and services for Entergy must be in accordance with the requirements established in (a) Sections 5.1.1, (b) the remainder of this Section 5.2 (unless the exceptions of Section 5.3 apply), and (c) Sections 5.4 through 5.11 (where applicable). However, the provisions of this Section 5.2 do not apply to buying channel situations described in Sections 5.1.2 through 5.1.5.
 - 5.2.1** No authorization shall be given for a supplier to begin work without a Contract, Purchase Order, or other authorization from Supply Chain.
 - 5.2.2** Materials, goods and services should be purchased using the Electronic Procurement System.
 - 5.2.3** The Requester must complete an Initiating Procurement Document in the Electronic Procurement System. The Initiating Procurement Document must be approved in accordance with the Entergy System Approval Authority Policy.
 - 5.2.4** After Supply Chain receives the appropriately authorized Initiating Procurement Document, it has the authority to implement the requested transaction with a supplier through Execution of a Purchase Order, Contract or Blanket Order pursuant to the authorization levels as listed on Attachment I, "Purchase Order and Contract Execution Levels."
 - 5.2.5** Contracts shall be developed and Executed in accordance with Section 5.7. Change Orders and Amendments shall be developed and Executed in accordance with Section 5.8.
 - 5.2.6** Competitive bidding, when applicable, shall be used if required by and performed in accordance with Sections 5.6 and 6.1.

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5.2.7 Qualified Suppliers (see Section 5.5) shall be used unless otherwise authorized by Supply Chain.

5.2.8 Payments shall be made pursuant to the procedures described in Section 6.2.

5.2.9 Closing of Contracts shall be made pursuant to Section 5.9

5.2.10 Purchase Orders shall be developed and Executed in accordance with Section 5.10.

5.3 **Exceptions to Supply Chain Requirements**. The provisions of Section 5.2 are not required for transactions that follow the requirements identified below. Nonetheless, the provisions of Section 5.2 should be followed when reasonably possible, including use of Qualified Suppliers (see Section 5.5).

5.3.1 **Emergency** - In an Emergency, as defined in this Policy, materials, goods or services may be purchased without following the requirements of Section 5.2. In such event, a properly approved Initiating Procurement Document and written justification of the Emergency event for the purchases made must be forwarded to Supply Chain within 72 hours of the Emergency.

5.3.2 **Field Service Contracts** - A Field Service Contract may be issued by an employee for low-risk services, as determined by Legal or Risk Management Services, costing less than \$20,000. The Field Service Contract must be approved by an Entergy representative in accordance with the Entergy System Approval Authority Policy and signed by the supplier before the supplier begins work. A copy of the Executed Field Service Contract shall be forwarded to the appropriate Supply Chain group. Use of Field Service Contracts is not applicable to Fossil or Nuclear generation organizations. Unless otherwise approved by Legal Services, the Field Service Contract shall not be used for non-service procurement. Employees shall make every effort to use Qualified Suppliers.

5.3.3 **Storm Logistics Service Contracts** - The Storm Logistics Service Contract may be issued for logistics-related storm services, as determined by the System or State Logistics Lead, costing less than \$100,000, provided that an existing storm Contract issued by Supply Chain is not in place, or Supply Chain may not otherwise be in a position to negotiate a Contract with the supplier. The Storm Logistics Service Contract must be approved by an Entergy representative in accordance with the Entergy System Approval Authority Policy and signed by the supplier before the supplier begins work. A copy of the Executed Storm Logistics Service Contract shall be forwarded to the appropriate Supply Chain group within 72 hours of Execution. Unless otherwise approved by Legal Services, the Storm Logistics Service Contract shall not be used for non-service storm

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procurement. Employees shall make every effort to use Qualified Suppliers.

5.3.4 Exclusions from Supply Chain Requirements. Specific types of transactions have been granted exclusions from the requirements of Section 5.2, Involvement of Supply Chain and Supply Chain Requirements. They comprise Payee Based Exclusions, Supplier Based Exclusions, and Credit Card Exclusions. Refer to **Attachment II - Exclusions from the Use of Supply Chain** for detailed information and requirements.

5.4 General Provisions. The additional provisions identified below must be followed for a Contract or procurement transaction.

5.4.1 In adherence with the General Services Administration Agreement that Entergy maintains with the Federal Government, all Contracts and procurement transactions greater than or equal to \$550,000, except for such transactions issued to Diverse Suppliers or original equipment manufacturers (OEM), shall require subcontracting plan provisions for the utilization of Diverse Suppliers from the Prime Supplier. Exceptions from the supplier to the subcontracting plan provision must be submitted in writing to Supply Chain and agreed to by the Director, Project Alliances Strategic Sourcing or his/her designee(s), and the appropriate Supply Chain sourcing manager.

5.4.2 Supply Chain personnel will contact the OCRO for further guidance whenever a Contract or procurement transaction involves: a) third-party possession of Entergy's monetary or physical assets; or b) credit-enabling language (e.g., adequate assurance rights, cross default rights, credit rating downgrade triggers, collateral threshold, margining rights, collateral requirements, and requirement for parent guarantees); or c) exposure to the counterparty that is greater than \$20 million; or d) the supplier is on the OCRO Credit Watch List. (Note: the OCRO Credit Watch List is a list of counterparties of which OCRO has heightened credit concern. If a counterparty is placed on the list, then OCRO will prepare quarterly credit reviews and distribute them to impacted Business Units. Consult the *Corporate Risk Standards* referenced under Section 2.1.8 of this Policy for more information.)

5.4.3 Contracts and procurement transactions (including alliance and agreements and General Services Agreements) with an explicit or implicit committed spend exceeding \$20 million will require CRC Concurrence Review. Refer to the Corporate Risk Controls Standards for Regulated or Unregulated Entergy Businesses, Section B-05, Procurement Contracts, for further guidance on when CRC Concurrence Review is not required.

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5.4.4 Deviations from the Entergy System's standard insurance requirements and/or terms and conditions must be documented.

5.4.4.1 Risk Management Services shall be consulted on deviations from the approved Entergy System insurance requirements.

5.4.4.2 Legal Services shall be consulted on deviations from standard terms and conditions or other required provisions that would affect the overall risk to Entergy.

5.4.5 Purchases of Software, Hardware and Services

5.4.5.1 All IT hardware, software and services must be purchased in accordance with approved IT standards. Other requirements and procedures of this Policy shall apply. For software purchases, a request must be submitted in the Electronic Support and Knowledge Based System with supporting documentation, such as installation location (PC name, server name, etc.) and person(s) receiving the software.

5.4.5.2 Refer to the Entergy System Electronic Information Security Policy and Protection of Information Policy, Software Asset Management Policy, and the GUARD process referenced in Section 2.4 for requirements and other details when acquiring software, hardware and IT services.

5.4.6 Outsourced Service Providers - The requesting or sponsoring Business Unit is responsible for establishing the User Control Considerations. The Contract Manager shall request and monitor Service Organization Control Report(s), where available, or substitutes therefor, on an annual basis to ensure that the User Control Considerations and Outsourced Service Provider controls are working as designed.

5.4.7 Procurement of Furniture – Furniture purchases must be made in accordance with Entergy Systemwide Furniture and Space Standards (referenced at Section 2.3 of this Policy) and coordinated through the appropriate facilities organization.

5.4.8 Independent Contractors - All requisitions for Independent Contractors must be in conformity with the Requirements for Procurement of Independent Contractors, Attachment III of this Policy and approved in accordance with the Entergy System Approval Authority Policy.

5.4.9 Affiliate Transactions - Transactions between subsidiaries and affiliates shall be completed in accordance with the Entergy System policy, "Affiliate Interactions," and applicable laws and regulations addressing such transactions.

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5.4.10 Applicability of Taxes - Supply Chain shall consult, as needed, with the Tax department on applicability of Taxes for sourcing transactions. Where applicable, Supply Chain shall provide to suppliers Tax Exemption Documentation. If the Contract Manager or Supply Chain determines the transaction is exempt from Taxes, the Contract Manager and Supply Chain must ensure the exemption from Taxes is reflected in the Contract price of the materials, goods and services.

5.4.11 Leases - All Contracts that contain a Lease or component of a Lease (as defined in this Policy), must be forwarded to Accounting Policy & Research Group at LeaseAccounting@entergy.com for proper recording and reporting purposes.

5.5 Qualified Suppliers

5.5.1 Qualified Suppliers are maintained in the Vendor Maintenance Database. Nuclear Qualified Suppliers are also maintained in the Nuclear Qualified Supplier list.

5.5.2 Pre-qualification of new suppliers requiring a review of licenses, safety records, insurance requirements, etc. should be completed in the Supplier Safety Pre-Qualification System.

5.6 Competitive Bidding Requirements (also see Section 6.1 for competitive bidding procedures)

5.6.1 Competitive bidding must be requested for all purchases of materials and/or goods greater than \$50,000 and for all purchases of services greater than \$100,000, based on the total order value, unless approval for not obtaining competitive bids is received as indicated in Section 5.6.5.

5.6.2 Competitive bidding for the purchase of materials, goods and services greater than \$100,000 must include Diverse Suppliers and Local Suppliers, if available. In any event, documentation must be maintained by Supply Chain to show that Diverse Suppliers and Local Suppliers were given the opportunity to bid and if not, why not. If the award is not made to a Diverse Supplier and/or Local Supplier, documentation must include the basis for such decision.

5.6.3 Competitive bidding performed for the construction, extension and/or repair of Entergy Mississippi, LLC facilities in excess of \$200,000 shall also include all contractors and suppliers who are qualified and responded to Entergy's bid solicitation advertisement in Mississippi.

5.6.4 Sealed (formal) bids should be requested for purchases of materials, goods and/or services greater than \$250,000, and lesser amounts when appropriate. Bidding performed in the Electronic Bidding System satisfies the sealed bid requirement.

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5.6.5 Exceptions to Competitive Bidding. Exceptions to competitive bidding may occur if less than three suppliers exist or if more than two suppliers are available but one is preferred over the others, subject to the following provisions.

5.6.5.1 A non-bid justification must be completed to document the basis for not bidding, and approved by the Vice President, Chief Supply Officer or his/her designee, except as otherwise provided below. Contact Supply Chain for further guidance. Approved non-bid justifications must be filed by Supply Chain in the Electronic Document Management System or the Electronic Procurement System.

5.6.5.2 In the following situations, Supply Chain approval for an exception to competitive bidding is not required; however, the reason the exception must be documented in the Electronic Procurement System:

- Original equipment manufacturer (OEM);
- Supplier with proprietary process/materials;
- Requested services or materials are part of Contract exclusivity with the supplier;
- T&D materials where engineering or design standards exist;
- Services, goods or materials furnished by a Preferred Supplier;
- Exclusive scopes of services, materials, parts, etc. provided by an Alliance Partner as defined in an alliance agreement;
- Purchases of materials through inter-utility agreements in an Emergency situation; or
- Emergency situation as defined in this Policy.

5.7 Contracts

5.7.1 Execution.

5.7.1.1 Contracts issued by Supply Chain must be Executed in accordance with Attachment I, "Purchase Order and Contract Execution Levels."

5.7.1.2 Blanket Order Release issued by an Entergy employee must be Executed in accordance with the Entergy System Approval Authority Policy based on the total value of the Blanket Order Release. Such Blanket Order Releases must be maintained by the employee's department in accordance with the Entergy System Records Management & Retention Policy.

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5.7.2 Requirements.

5.7.2.1 Contracts must include, at a minimum, the legal entity name for which the Contract is issued, detailed scope of work, compensation provisions including Entergy's standard payment terms and automated clearinghouse (ACH) payment requirements unless otherwise approved by Supply Chain management, Contract term, and signatures from Qualified Suppliers and Entergy System representatives.

5.7.2.2 Contracts may include insurance, applicability of Taxes, indemnification requirements, transfer of title provisions and other provisions deemed necessary for the protection of the Entergy System's interest, including Tax Exemption Documentation.

5.7.3 Contract Changes. Section 5.8, Change Orders and Amendments, addresses the acceptable methods for revising/amending existing Contracts.

5.7.4 Contract with Independent Contractor. A Contract with an Independent Contractor must be undertaken in accordance with applicable provisions of the Requirements for Procurement of Independent Contractors (see Attachment III). Also, at a minimum, the Contract must include the name and address of the Independent Contractor, a description of the scope of work, a fixed schedule, a defined term, indemnity, and other insurance or accountability provisions, and other terms and conditions consistent with the person's or entity's status as an Independent Contractor.

5.7.5 Letters of Intent. Supply Chain may issue letters of intent only when their use is necessary and only after Legal review. Letters of intent shall be issued in accordance with the Entergy System Letters of Intent and Preliminary Understandings Policy. The approval levels required for Letters of Intent shall be the same as those required for Purchase Orders and Contracts. See Attachment I of this Policy, "Purchase Order and Contract Execution Levels."

5.8 Change Orders and Amendments

5.8.1 Change Orders. A Change Order is required any time there is a change in the scope of work, term (end date), quantity, price or compensation provisions, except under the circumstance described in Section 5.8.1.4.

5.8.1.1 A Change Order must be Executed in accordance with this Policy's Attachment I, "Purchase Order and Contract Execution Levels" based on the cumulative value of the Contract. In the event a Change Order is required to revise a Blanket Order Release that was previously issued by an Entergy

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representative, such Change Order must be Executed by an Entergy representative in accordance with the Entergy System Approval Authority Policy based on the cumulative value of the Blanket Order Release.

5.8.1.2 CRC Concurrence Review shall be sought prior to the Execution of a Change Order that increases the cumulative value of the Contract to greater than \$20 million.

5.8.1.3 An Initiating Procurement Document ("Contract Change Request") must be prepared in the Electronic Procurement System and approved in accordance with the Entergy System Approval Authority Policy based on the cumulative value of the Contract. The Initiating Procurement Document must be prepared before the supplier begins the extra work, except under circumstances described in Section 5.8.1.3.1.

5.8.1.3.1 Under certain conditions, such as to avoid additional mobilization/de-mobilization charges or delays in the project schedule, it may not be feasible to complete an Initiating Procurement Document (described in Section 5.8.1.3) in the Electronic Procurement System before the supplier begins work. In that event, an Extra Work Authorization or other approved form that describes the change in the scope of work, quantity, price or compensation provisions must be completed, and Executed by the Entergy representative and supplier.

5.8.1.3.2 The Extra Work Authorization or other approved form must be approved in accordance with the Entergy System Approval Authority Policy based on the cumulative value of the Contract and signed by the supplier before the supplier begins work.

5.8.1.3.3 If completion of an Extra Work Authorization or other approved form as described at 5.8.1.3.1 is not feasible, then documented approval must be obtained from an Entergy representative in accordance with the Entergy System Approval Authority Policy before the supplier begins work.

5.8.1.3.4 Within 72 hours after the approval from an Entergy representative authorizing the supplier to start the extra work, an Initiating Procurement Document must be initiated in the Electronic Procurement System per Section 5.8.1.3.

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5.8.1.4 If the supplier's final invoice is within the scope of the Contract and does not cause the Contract ceiling to be exceeded by the lesser of 10% or \$2,500, a Change Order is not required.

5.8.2 Amendments. An Amendment is required any time there is a change to the terms and conditions of a Contract.

5.8.2.1 All Amendments must originate from Supply Chain.

5.8.2.2 An Amendment shall be issued for significant changes to the Contract's terms and conditions (e.g., changes to insurance, indemnity, warranty, etc.) and must be reviewed by Legal Services prior to Execution.

5.8.2.3 Other changes to the Contract (e.g., new or revised supplier contact, revised Contract Manager, etc.) will not require review by Legal Services but should be communicated to the supplier in accordance with the Contract's "Notices" provision.

5.8.2.4 Administrative changes to the Contract information in the Electronic Procurement System (e.g., revised accounting code block, new supplier address, revised supplier contact, change to Contract Manager and Invoice verifier, extension of a non-fixed effective term, etc.) will not require an approved Initiating Procurement Document, review by Legal Services or supplier notification. The Supply Chain staff shall use professional judgment based on business input to determine that such changes do not involve scope of work, compensation or defined schedule provisions in a contract.

5.8.2.5 All Contract Amendments must be entered in the Electronic Procurement System and any documentation filed in the Electronic Document Management System.

5.9 Contract Close-Out

5.9.1 Supply Chain will close out a Contract upon receipt of notification by the Contract Manager. If the Contract Manager does not provide notice within 90 days following the termination or expiration of a Contract, the Contract may be closed out administratively.

5.9.2 Supply Chain will confer with Legal Services when a potential claim is known, a billing dispute exists, or the potential for a lien is present before the final payment is made to the supplier.

5.10 Purchase Orders

5.10.1 Execution.

5.10.1.1 All Purchase Orders must be Executed by Supply Chain in accordance with this Policy's Attachment I, "Purchase Order

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and Contract Execution Levels.” Electronic Execution will satisfy the requirement for Execution of the Purchase Order in accordance with Attachment I.

5.10.1.2 For Purchase Orders of inventory or non-inventory items, Supply Chain personnel are authorized to issue the Purchase Order without any additional approval from the requesting group, provided the Purchase Order’s value is within \$2,500 of the total value of corresponding line items from approved requisitions.

5.10.1.3 In the event the Purchase Order’s total value exceeds the total value of the corresponding line items from approved requisitions by more than \$2,500, or if the Purchase Order’s total value exceeds the level of authority of the Approver of the requisition, Supply Chain must first obtain electronic approval of the Purchase Order from the appropriate level of management in accordance with the Entergy System Approval Authority Policy before providing final electronic Execution of the Purchase Order in accordance with this Policy’s Attachment I, “Purchase Order and Contract Execution Levels.”

5.10.2 Requirements. Purchase Orders must include, at a minimum, the legal entity name for which the Purchase Order is issued, description of material(s), compensation provisions including Entergy’s standard payment terms and automated clearinghouse (ACH) payment requirements unless otherwise approved by Supply Chain management, point of contact, shipping method, and the Purchase Order terms and conditions.

5.11 Diverse Suppliers and Local Suppliers

5.11.1 Supply Chain shall ensure that Diverse Suppliers and Local Suppliers capable of meeting Entergy’s sourcing needs are given equal access to participate in Entergy System business opportunities, including bidding opportunities. Diverse Suppliers and Local Suppliers shall be identified as such in the Supplier Registration System.

5.11.2 Supply Chain shall ensure that suppliers identified as Diverse and Local for the provision of materials, goods, and/or services to Entergy meet this Policy’s criteria for Diverse Suppliers and Local Suppliers, respectively, as defined under Section 3.0.

5.11.3 Refer to Sections 5.4.1 (General Provisions) and 5.6.2 (re: bidding) for additional Diverse Supplier and Local Supplier requirements.

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6.0 **PROCEDURES**

6.1 **Procedures for Competitive Bids (also see Section 5.6 for bid and non-bid justification requirements)**

- 6.1.1 A minimum of 3 bids shall be requested for competitive bidding.
- 6.1.2 Competitive bidding involving fewer than 3 bidders shall be subject to approval by the Vice President, Chief Supply Officer or his/her designee(s).
- 6.1.3 The Electronic Bidding System should be utilized for competitive bidding, whenever reasonably possible.
- 6.1.4 Supply Chain will coordinate with Requesters to develop scope statements and gather specifications for preparation of RFPs or requests for quotes ("RFQs").
- 6.1.5 The RFP/RFQ contains pertinent information such as technical and commercial requirements, work scope, quantities, terms and conditions, instructions to bidders regarding Taxes applicable on the item/service purchased, deadlines, and other instructions to bidders.
- 6.1.6 All RFPs/RFQs must be issued to bidders by Supply Chain using customary methods of solicitation. Such methods may be accomplished by written or electronic means.
- 6.1.7 All bids must be received, opened and recorded by Supply Chain.
- 6.1.8 Requesters will participate in the evaluation process, providing any required technical evaluations. Supply Chain will evaluate and negotiate any associated commercial terms.
- 6.1.9 Supply Chain reserves the right to reject any or all bids.
- 6.1.10 Standard bid evaluation criteria shall be used in support of the Company's ESG goals. The standard weighting shall include Safety 15%, Diverse and Local supplier criteria 15%, Sustainability 5%, Commercial & Technical 65%.
- 6.1.11 The final evaluation should provide the lowest total cost considering form, fit, function, delivery, quality, performance, safety, risks, price, Diverse Supplier status, Local Supplier status, Sustainability Measures and commercial terms.
- 6.1.12 The basis for the award must be documented.
- 6.1.13 Bid responses, including prices, must not be shared with competing suppliers before, during or after the award, except in the event of an on-line auction, and even then, only in conformity with rules surrounding such on-line auction.

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6.1.14 Bid files will be kept by Supply Chain.

6.2 Procedures for Processing of Invoices

6.2.1 Contracts.

- 6.2.1.1** Contract invoices must be processed in the Electronic Procurement System designating the Contract number.
- 6.2.1.2** Signature or electronic approval will satisfy the requirement for approval of disbursements in accordance with the Entergy System Approval Authority Policy.
- 6.2.1.3** Invoices exceeding the total Contract value will require a Change Order (see Section 5.8), unless the invoice is the supplier's final invoice and the invoice amount does not exceed the total Contract value by 10% or \$2,500, whichever is less.
- 6.2.1.4** The Contract Manager must ensure that the appropriate Contract number and payment terms are shown on the invoice, and that the invoice is properly approved and supported by detailed documentation when processed.

6.2.2 Purchase Orders.

- 6.2.2.1** Purchase Order invoices must go directly from the supplier to the Accounts Payable Department unless otherwise specified in the Purchase Order.
- 6.2.2.2** Purchase Orders require the prompt completion of a materials or goods receipt document or approval of the invoice verifying actual receipt of materials or goods, as well as their acceptance or rejection.
- 6.2.2.3** The receipt or approval of the invoice must be entered into the Electronic Procurement System within two working days of receipt of the materials or goods.

7.0 ATTACHMENTS

Attachment I - Purchase Order and Contract Execution Levels

Attachment II - Exclusions from the Use of Supply Chain

Attachment III – Requirements for Procurement of Independent Contractors

Supply Chain Class Predominant Billing Methods

Billing Allocation Methodology	Basis for Selection of Billing Allocation Methodology
SCPSPALL	For the project codes assigned to this billing method, the cost driver is based on the amount of supply chain's procurement total spending. For example, Project Code F3PCFCPO01 (Chief Supply Officer) captures and manages costs associated with providing guidance, direction, and supervision for the procurement groups reporting to the Chief Supply Officer in the Supply Chain organization. The costs are driven by the requirement to supervise, manage, and plan for the current and future activities of the Supply Chain organization. As such, a composite method based on supply chain transactions, stockroom count, and supply chain spending is a reasonable approximation of the proportion of costs each entity should receive. Therefore this billing method is an appropriate method by which to allocate these costs.
SCPSPXNC	For the project codes assigned to this billing method, the cost driver is based on supply chain total spending, excluding nuclear. For example, Project Code F3PCH86010 (Purchasing and Contracts Support) captures and manages costs associated with the acquisition of goods and services for the support of ESL. The primary activities associated with this project code are the preparation and issuance of requests for proposals; negotiation of price, terms, and conditions; preparation and issuance of contracts and purchase orders; provision of freight management services; provision of management reports; processing of Electronic Data Interface transactions; development and maintenance of operating policies; maintenance of supplier listings; management of supplier relations; and provision of opportunities for small and disadvantaged businesses. Because the costs are driven by the acquisition of goods and services for ESL, this billing method, which directs costs based on supply chain total spending is appropriate.
DIRECTTX	For the project codes assigned to this billing method, the cost driver is by procurement activity at ETI-owned Power Gen power plants. For example, Project Code F3PPPWGETX (SC Power Gen Plant Support -TX) captures and manages costs associated with material purchases and contracts management support for ETI Power Gen power plants provided by ESL supply chain personnel. The primary activities of charges to be recorded in this project are payroll and employee expenses and the primary products or deliverables of this project code are negotiation of service contracts, materials purchases, and contract administration for ETI Power Gen power plants. The applied billing method is appropriate because 100% of the costs captured in this project were incurred to provide services solely to an ETI power plant.
SCFSPALL	For the project codes assigned to this billing method, the cost driver is based on supply chain total spending for the fossil function. For example, Project Code F3PCW36555 (Purchasing and Contracts Support) captures and manages costs associated with the management

	<p>of the procurement function for the Power Generation organization. The primary activities associated with this project code are evaluating products and supplies; coordinating bids and negotiations, issuing purchase orders; developing system-wide purchase agreements; managing minority and buy local programs; vendor evaluation programs; and supporting Power Generation Operations organization in acquiring equipment, materials, and supplies. Because these costs are driven by the needs of the Power Generation organization, this billing method is appropriate for these types of projects.</p>
LBRSUPCN	<p>For the project codes assigned to this billing method, the cost driver is based on total labor dollars billed to each company by ESL for the Supply Chain function. For example, Project Code F5PCZSDEPT (Supervision and Support –Supply Chain) captures certain supply chain overhead costs in order to be loaded to each of the other project codes owned by supply chain based upon a fixed rate per hour of labor of this department. The primary activities for this project code include: secretarial/clerical labor not specific to a particular project; general administrative meeting time, such as departmental staff meetings, employee evaluations, and goals setting; time spent on administrative tasks such as filling out timesheets, expenses, accounts, pay requests, and other accounting/human resource type forms; attending company-wide functions and general training; and general departmental overhead types of expenses. The costs are driven by the need to capture Supply Chain departmental overhead costs. Therefore, this billing method, which bills costs based on labor billing from ESL supply chain departments, is appropriate for these types of projects.</p>

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

Administrative Class Predominant Billing Methods

Billing Allocation Methodology	Basis for Selection of Billing Allocation Methodology
SQFTALLC	For the project codes assigned to this billing method, the cost driver is based on the square footage for all business units. For example, Project Code F3PCFACALL (Facilities Services) captures costs to operate and maintain facilities to ensure that Entergy can continue to operate in a safe and secure manner with minimal interruption. This project code also captures costs associated with providing building support services at Entergy's office buildings to ensure operational efficiency. The primary activities associated with this project code include scheduling preventative maintenance of building equipment and systems, including HVA systems, mechanical systems, and life-safety systems; timely repair or replacement of building facilities and systems; monitoring building and lease compliance with local and national regulations; administering building leases and rent. The costs are driven primarily by the total space occupied by employees in facilities; therefore, it is appropriate to allocate these expenses using this billing method.
ASSTALL	For the project codes assigned to this billing method, the cost driver is based on the total assets at period end. For example, Project Code F3PPESS100 (Entergy Shared Services) captures and manages costs for the Entergy Shared Services Organization which is comprised of several sub-departments including Supply Chain, Human Resources Operations, Finance Operations, Information Technology, Administrative Services and Business Transformation Office. The primary activities include providing operations support services to all Entergy business units. Because the costs are driven by the activities to provide operational support services to all Entergy business units, it is appropriate to allocate the cost of this project to the various companies using this billing method, which distributes costs based on total assets at period end.
DIRECTTX	For the project codes assigned to this billing method, ETI is the sole beneficiary. For example, Project Code SLPCHPMEGT (FACIL PROJ MGMT - EGSI – TX) captures and manages costs associated with performance of management support, field supervision, and engineering support provided by ESL for the capital suspense allocations. This project relate to support to ETI operations. The primary activities associated with this project code are material coordination, material specifications, technical support, project engineering, resource scheduling, and field supervision. These activities will incur charges in Entergy payroll, contractor labor, purchasing, and transportation. All services charged to this project code relate only to facilities business. Costs are driven by activities to support facilities capital expenditures for ETI. Therefore, costs are

	appropriately allocated base on billing method DIRECTTX, which directs 100% of the costs to ETL.
EMPLOYAL	For the project codes assigned to this billing method, the cost driver is based on the number of full and part time employees at period end. For example Project Code F3PCFAPWHS (Powerhouse Operations) captures costs incurred in the regulation operation of the Powerhouse facility, which is an Entergy owned conference center dedicated to employee training and management development activities. The primary activities charged to this project code are contracts and contractor costs for day-to-day services; costs of utilities; labor costs for the Entergy coordinator who oversees operations of contractors and performs scheduling and meeting planning; miscellaneous costs necessary to operations; and other outside services. The costs are driven by the activities necessary for the operations of the Powerhouse, which is necessary to develop and train employees. Because Powerhouse is available and benefits all employees, this billing method, which is based on the number of employees, is appropriate.

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

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See Native Excel file Renton Direct_ Exhibits A through D.

DOCKET NO. 53719

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

REDACTED DIRECT TESTIMONY

OF

JENNIFER A. RAEDER

ON BEHALF OF

ENTERGY TEXAS, INC.

JULY 2022

ENTERGY TEXAS, INC.
REDACTED DIRECT TESTIMONY OF JENNIFER A. RAEDER
2022 RATE CASE

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EXHIBITS

Exhibit JAR-1	Annual Incentive Plan Summaries (HSPM)
Exhibit JAR-2	Annual Incentive Compensation Allocation (HSPM)
Exhibit JAR-3	2019 Omnibus Incentive Plan
Exhibit JAR-4	Third Party Surveys
Exhibit JAR-5	Selected Studies (CONFIDENTIAL)
Exhibit JAR-6	Willis Towers Watson 2021 BenVal Report (HSPM)
Exhibit JAR-7	Paid Time Off Policies
Exhibit JAR-8	Training Courses
Exhibit JAR-9	Educational Assistance Program Policy
Exhibit JAR-10	Predominant Billing Methods for the HR Class

Exhibit JAR-11	Saratoga Institute 2021 HR Staffing and Expenditures Comparison
Exhibit JAR-A	Affiliate Billings by Class and Department
Exhibit JAR-B	Affiliate Billings by Class and Project Code
Exhibit JAR-C	Affiliate Billings by Class, Department, and Project Code
Exhibit JAR-D	Pro Forma Adjustments to Affiliate Billings

I. INTRODUCTION

Q1. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Jennifer A. Raeder. My business address is 639 Loyola Avenue,
New Orleans, Louisiana 70113.

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

A. I am the Vice President, Human Resources (“HR”) – Total Rewards for Entergy
Services, LLC (“ESL”)—the service company for the five Entergy Operating
Companies (“EOCs”),¹ including Entergy Texas, Inc. (“ETT” or the “Company”).

Q3. ON WHOSE BEHALF ARE YOU TESTIFYING?

A. I am testifying on behalf of ETL.

Q4. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND
PROFESSIONAL WORK EXPERIENCE.

A. I earned Bachelor degrees in Psychology and Anthropology from the University
of California, Berkeley and a Masters and Ph.D. in Industrial/Organizational
Psychology from the University of Maryland, College Park. I have held my
current position since January 2014. Prior to my current position, I had been
Director of HR – Total Rewards (2012-2014), and prior to that, Director of HR –
Utility Operations (2006-2012). I joined ESL in 1995 in the Leadership

¹ The five EOCs are Entergy Arkansas, LLC (“EAL”); Entergy Louisiana, LLC (“ELL”); Entergy Mississippi, LLC (“EML”); Entergy New Orleans, LLC (“ENO”); and Entergy Texas, Inc.

1 Development Department and have held a number of HR-related leadership roles,
2 including: Director of Employee Development; Director of HR, Power Generation
3 and Transmission; and Personnel Manager for London Electricity, an Entergy
4 subsidiary at that time. Prior to joining ESL, I was employed as a consultant by
5 Organizational and Personnel Research in the Washington, D.C. area.

6
7 Q5. PLEASE DESCRIBE YOUR CURRENT RESPONSIBILITIES.

8 A. I am responsible for the strategy, design, development, and administration of
9 various compensation and benefits programs for ETI, ESL, and the other EOCs.

10
11 **II. PURPOSE OF TESTIMONY**

12 Q6. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

13 A. The primary purpose of my testimony is to demonstrate that Entergy's²
14 Compensation and Benefits Programs, as well as the costs associated with these
15 programs, are reasonable and necessary to attract and retain qualified employees
16 to provide safe and reliable service to ETI's customers. To that end, my
17 testimony:

- 18 • describes Entergy's employee compensation structure;
- 19 • describes Entergy's Annual Incentive Programs and explains: (1) the bases
20 for awarding compensation under these programs, (2) why these programs
21 incentivize Entergy employees and benefit customers, and (3) how the
22 programs are funded;

² For convenience, I use the term "Entergy" to refer individually and collectively to Entergy Corporation and its affiliates, including but not limited to ESL and the EOCs.

- 1 • identifies Entergy's Long-Term Incentive Programs;
- 2 • discusses how providing compensation that is comparable to the labor
- 3 markets in which Entergy competes for employees is necessary to attract
- 4 qualified employees;
- 5 • demonstrates that Entergy's annual and long-term incentive compensation
- 6 programs and costs during the 12 months ending December 31, 2021 (the
- 7 "Test Year") are reasonable and necessary;
- 8 • identifies and supports the reasonableness of the costs associated with the
- 9 health and retirement benefits provided to Entergy employees and
- 10 describes the actions Entergy has taken to mitigate cost increases; and
- 11 • discusses other HR-related costs.

12 I also support Test Year operation and maintenance ("O&M") expenses
13 and the administrative and general expenses for the HR Class of affiliate services.
14 Specifically, my testimony: (1) describes the services by the HR Class;
15 (2) explains that the costs for these services are reasonable and necessary;
16 (3) explains that these services are not duplicative of any services provided by
17 ETI or any other source; and (4) demonstrates that the charges to ETI for these
18 services are no higher than the charges to ETI's affiliates for the same or similar
19 services.

20

21 Q7. WHY ARE YOU THE APPROPRIATE PERSON TO SPONSOR THIS
22 TESTIMONY?

23 A. As indicated above, I have been in HR with ESL for over 25 years. Through my
24 education, job responsibilities, professional experience, and familiarity with the
25 HR department, I have the knowledge, training, and experience needed to address
26 the topics covered in my testimony.

1 Q8. WHAT EXHIBITS DO YOU SPONSOR IN YOUR DIRECT TESTIMONY?

2 A. The list of exhibits to my testimony is contained in the table of contents.

3

4 Q9. DO YOU SPONSOR OR CO-SPONSOR ANY SCHEDULES IN THE RATE
5 FILING PACKAGE (“RFP”) THAT ETI HAS FILED IN THIS DOCKET?

6 A. Yes, I sponsor Schedules G-1.5, G-2, and G-2.3. I co-sponsor Schedules G-1.6,
7 G-2.1, and G-2.2 with Allison Lofton.

8

9 Q10. PLEASE GENERALLY DESCRIBE THE SCHEDULES THAT YOU
10 SPONSOR.

11 A. Schedule G-1.5 provides employee headcount information for all months during
12 the Test Year and the three most recent calendar years prior to the Test Year,
13 while Schedule G-1.6 provides all payments other than standard pay or overtime
14 made to employees during the Test Year and the three most recent calendar years.
15 Schedule G-2 provides information for all employee benefits requested in the cost
16 of service, including descriptions of the benefits and eligible employees, how the
17 benefits are funded, and documentation supporting the costs related to the
18 benefits. Schedule G-2.1 contains information on the pension expense, including
19 the actual pension fund payments for the three most recent calendar years.
20 Schedule G-2.2 concerns Other Post-Retirement Benefits (“OPEBs”) and includes
21 the present costs and the actual funded amounts for each of the three most recent
22 years’ OPEBs, among other information. Schedule G-2.3 provides the
23 administration fees for the plans that have been included in Schedule G-2.

1 Q11. WHY ARE YOU THE APPROPRIATE PERSON TO SPONSOR THESE
2 SCHEDULES?

3 A. These schedules relate to my testimony regarding Entergy's Compensation and
4 Benefits Programs as well as the HR Department. As with my testimony, I am
5 the appropriate person to sponsor these schedules based on my educational
6 background, training, professional experience, and responsibilities as
7 Vice President, HR – Total Rewards for ESL.

8

9 **III. COMPENSATION AND BENEFITS PROGRAMS**

10 Q12. WHAT IS THE PURPOSE OF THIS SECTION OF YOUR TESTIMONY?

11 A. The purpose of this section of my testimony is to address the reasonableness and
12 necessity of the compensation and benefits costs incurred by or on behalf of ETI,
13 which are included in ETI's proposed revenue requirement. I show how
14 Entergy's programs are designed and managed to produce reasonable, market-
15 competitive compensation and benefits programs.

16

17 Q13. HOW DOES YOUR TESTIMONY ON COMPENSATION AND BENEFITS
18 FIT WITH OTHER ETI WITNESSES' TESTIMONY?

19 A. Various ETI witnesses support certain Test Year costs that contain internal labor
20 dollars (e.g., employee labor costs incurred by or on behalf of ETI) from the
21 perspective of whether the level and types of activities for various utility and
22 utility support functions are reasonable and necessary. My testimony
23 demonstrates that the underlying compensation and benefits costs associated with

1 these activities are the product of reasonable and necessary compensation and
2 benefits programs that are designed and managed to yield reasonable costs.

4 **A. Compensation Programs**

5 Q14. PLEASE DESCRIBE ENTERGY'S COMPENSATION STRUCTURE.

6 A. Entergy offers reasonable, competitive pay packages that are not only tied to each
7 EOC's performance but also to individual employee performance. In general,
8 Entergy's employee compensation consists of the following elements:

- 9 1. Annual cash compensation, consisting of: (a) base pay and (b) annual
10 incentives³; and
11 2. Equity-based long-term incentives.

13 **1. Entergy's Annual Base Pay**

14 Q15. PLEASE DESCRIBE BASE PAY.

15 A. Base pay is a rate or amount of pay for a standard work period, job, or position
16 exclusive of additional payments or allowances. Entergy provides base pay to
17 each of its employees, and it is the most common form of payment in the market
18 for all levels of employees.

³ Entergy also has a rewards and recognition program to recognize individuals and/or teams for exemplary work on special projects or assignments. Rewards are evaluated on a case-by-case basis and are thus not considered to be a main element of any individual employee's total compensation package. This program is explained later in my testimony.

1 Q16. PLEASE DESCRIBE HOW ENTERGY DESIGNS THE BASE PAY
2 COMPONENT OF EMPLOYEES' ANNUAL COMPENSATION.

3 A. Entergy designs its employees' base pay to be comparable with that provided in
4 relevant labor markets.

5

6 **2. Entergy's Annual Incentive Programs**

7 Q17. PLEASE DESCRIBE ENTERGY'S ANNUAL INCENTIVE PLANS.

8 A. During the Test Year, Entergy had six annual incentive plans. The six plans and
9 the eligible employee groups were as follows:

- 10 • *Executive Annual Incentive Plan ("EAIP")*: Participation was limited to
11 the Chief Executive Officer, Presidents, Executive Vice Presidents, Senior
12 Vice Presidents, and some Vice Presidents.
- 13 • *System Management Incentive Plan ("SMIP")*: Participation was limited
14 to selected management personnel and key high-level individual
15 contributor employees.
- 16 • *Exempt Incentive Plan ("EXIP")*: Participation was limited to full-time
17 and part-time exempt employees⁴ who were not eligible for participation
18 in another incentive plan.
- 19 • *Operational Supervisor Incentive Plan ("OSIP")*: Participation was
20 limited to full-time and part-time, exempt employees who are operational
21 supervisor of field/craft workers and/or work in the field themselves.
- 22 • *Teamsharing Incentive Plan ("TSIP")*: Participation was limited to full-
23 time and part-time, non-exempt,⁵ non-bargaining⁶ employees who were
24 ineligible for participation in another incentive plan. Certain non-exempt,

⁴ 'Exempt employees' are employees who are paid a salary and are exempt from the overtime provisions under the federal wage and hour law.

⁵ 'Non-exempt employees' refers to employees who are covered under the federal wage and hour law and must be paid overtime for all hours worked in excess of forty hours during a work week.

⁶ 'Non-bargaining employees' are those not covered by any collective bargaining agreement.

1 bargaining employees⁷ also are eligible for participation in this plan where
2 it has been negotiated into the collective bargaining agreement.

- 3 • *Teamsharing Plan for Selected Bargaining Units ("TSBP")*: Participation
4 was limited to full-time or part-time bargaining employees where this plan
5 has been negotiated into the collective bargaining agreement.

6 Participation requirements and plan design for the six annual incentive
7 plans are described in the plan summaries presented in Exhibit JAR-1. This
8 exhibit covers the participation requirements during the Test Year.

9
10 Q18. WHY DOES ENTERGY INCLUDE INCENTIVE COMPENSATION IN ITS
11 COMPENSATION STRUCTURE?

12 A. There are two main reasons. First, Entergy must compete across multiple
13 industries for qualified employees. I explain below that most of Entergy's
14 competitors (relative to hiring and retaining employees) provide incentive
15 compensation, both annual and long-term, coupled with base pay and benefits
16 (e.g., insurance and retirement). As such, Entergy must structure its
17 compensation in a similar manner so that it can compete to attract and retain
18 employees who can provide safe, reliable, and affordable electric service. In
19 other words, potential and existing employees want the same opportunities at
20 Entergy to improve their pay through incentive compensation as they could obtain
21 elsewhere.

⁷ 'Bargaining employees' are those whose compensation, benefits, and work rules are covered by a collective bargaining agreement.

1 Second, Entergy believes a variable compensation structure that
2 differentiates an individual's pay based on performance drives enhanced
3 performance and aligns the interests of employees with our four key
4 stakeholders—our customers, employees, owners, and communities.

5
6 Q19. DO THESE ANNUAL INCENTIVE PLANS AWARD COMPENSATION FOR
7 ACHIEVEMENT OF OPERATIONS-BASED METRICS?

8 A. Yes. All but one of Entergy's annual incentive plans award compensation using
9 solely operations-based metrics—e.g., customer service, operational performance,
10 and safety measures. EAIP includes both operations-based metrics and a financial
11 component as shown in Exhibit JAR-2. The financial metrics, however, are
12 considered only for EAIP awards to the 9 members of the Office of the Chief
13 Executive. Awards to all other EAIP participants—60 employees—are based
14 solely on the achievement of operations-based metrics. ETI is not seeking
15 recovery of the costs tied to the financially based portion of the EAIP.

16
17 Q20. PLEASE DESCRIBE HOW THE OPERATIONS-BASED INCENTIVE
18 METRICS ARE DETERMINED.

19 A. Each business unit or organization within Entergy designs its own operations-
20 based performance measures tailored to the specifics of its operational
21 responsibilities, focus, and activities. These metrics are approved by functional
22 leadership and the respective Office of the Chief Executive member to ensure
23 they are aligned with the Company's overall objectives. These operations-based

1 measures include: (1) customer goals, (2) operations goals, (3) safety goals, and
2 (4) a composite of two or more of these categories, as seen in Exhibit JAR-2.

3

4 Q21. PLEASE DESCRIBE HOW THE OPERATIONS-BASED METRICS
5 INCENTIVIZE EMPLOYEES.

6 A. In short, because a percentage of each employee's total compensation is "at-risk,"
7 meaning it is not guaranteed but rather earned based upon achievement of
8 operations-based workgroup goals and individual performance goals, each
9 employee has an incentive to achieve his/her workgroup's operational targets,
10 which are aimed at improving the overall operations of the Company.

11

12 Q22. PLEASE DESCRIBE HOW THE ANNUAL INCENTIVE PROGRAMS
13 BENEFIT CUSTOMERS.

14 A. Customer and employee interests are aligned through workgroup operational
15 goals. Specifically, because each employee's compensation is linked to the
16 achievement of operational goals, each employee has an interest in achieving his
17 or her operational goals. In turn, achieving these operations-based objectives
18 benefits customers by driving enhanced performance and ensuring safer, more
19 reliable service that is provided in a cost-effective manner. For example, plant
20 production targets contribute toward the provision of reliable and affordable
21 service. To take another example, meeting safety goals for significant injury
22 prevention and attendance at safety meetings to ensure safety culture are critical
23 to providing safe service. In addition, goals measuring customer satisfaction with

1 recent experiences ensure that Entergy employees remain customer focused.
2 Finally, customers benefit when Entergy can attract and retain qualified
3 employees to provide safe, reliable, and affordable service.
4

5 Q23. PLEASE DESCRIBE HOW THE ANNUAL INCENTIVE PLANS ARE
6 FUNDED.

7 A. Funding for the TSIP and TSBP is based purely on achievement of operational
8 goals and is calculated using a formula that considers actual workgroup goal
9 achievement level versus the established target for achievement that is set at the
10 beginning of the performance year. For the four other annual incentive
11 programs—EAIP, SMIP, EXIP, and OSIP—Entergy determines a maximum pool
12 of dollars available for awarding annual incentive compensation, which it then
13 distributes as awards to employees based on workgroup and individual
14 performance. The formula used to determine the annual incentive compensation
15 pool is called the Entergy Achievement Multiplier (“EAM”). The EAM is used to
16 assess: (1) the financial feasibility of awarding annual incentive compensation,
17 and (2) the payout level the performance of the corporation indicates is
18 appropriate. Beginning in 2021, EAM is composed of five measures: tax-adjusted
19 earnings per share (60%); customer net promoter score (10%);⁸ safety (10%);

⁸ The customer net promoter score is a measure that incentivizes actions that drive positive outcomes (as measured through our customers’ lenses), including impacts of reliability improvements, continuous improvement, and innovation. The measure is calculated using a blind, random survey of residential customers.

1 diversity, inclusion & belonging (“DIB”) (10%); and environmental stewardship
2 (10%).⁹

3 The EAM formula begins with tax-adjusted earnings per share as a
4 threshold matter to ensure Entergy has generated sufficient profit to assure the
5 financial feasibility of awarding any annual incentive compensation for the
6 performance year. Entergy then evaluates its actual performance against target
7 performance goals established for four key operational metrics to determine the
8 total pool of dollars available to award incentives to eligible employees:

- 9 • The customer net promoter measure incentivizes employees to engage in
10 behaviors that drive customer satisfaction.
- 11 • The safety measure is based on industry-standard tracking of serious
12 injuries or fatalities in the workplace, with any fatality of an employee or
13 contractor resulting in zero achievement, meaning the funding pool will be
14 reduced because there will be no funding for the safety measure.
- 15 • The DIB measure is a qualitative assessment informed by quantitative
16 measures, that takes into consideration, for example, female and minority
17 representation in the workforce and at management levels.
- 18 • The environmental stewardship measure is a qualitative assessment of
19 progress toward environmental commitments through performance on key
20 initiatives such as emission rate reduction and climate resilience.

21 Once the EAM is scored and the level of funding is calculated, employees’
22 incentive payments are determined based on their workgroup’s performance on
23 operational goals established for their business unit as well as their individual
24 performance on goals established for each employee. The EAM formula is not
25 used as a performance measure for determining individual incentive payouts

⁹ Prior to 2021, EAM was based on two equally weighted performance metrics: tax adjusted earnings per share and adjusted operating cash flow.

under Entergy's annual incentive plans, except with respect to payouts awarded to the members of the Office of the Chief Executive under the EAIP. A summary of funding and bases for annual incentive awards is provided in the following Table 1.

Table 1: Incentive Plan Summary

	Funding for Awards dependent on EAM	Awards are discretionary based solely on achievement of operational workgroup and individual goals	Awards are nondiscretionary and determined formulaically based solely on achievement of operational workgroup goals
EAIP	Yes	Yes ¹⁰	No
SMIP	Yes	Yes	No
EXIP	Yes	Yes	No
OSIP	Yes	Yes	No
TSIP	No	No	Yes
TSBP	No	No	Yes

¹⁰ As noted above, except with respect to the nine members of the Office of the Chief Executive, all incentive compensation awards under the EAIP program are based solely on the achievement of operational workgroup and individual goals.

1 Q24. DOES THE FACT THAT EAM IS USED TO DETERMINE THE FUNDING
2 LEVELS FOR FOUR OF ENTERGY'S ANNUAL INCENTIVE PLANS MEAN
3 THAT INCENTIVE COMPENSATION AWARDED TO NON-EXECUTIVES
4 UNDER THESE PROGRAMS IS BASED ON A FINANCIAL METRIC?

5 A. No. One should not confuse funding to make incentive compensation available
6 each year with the employee achievement necessary to earn annual incentive
7 compensation. Again, the inclusion of tax-adjusted earnings per share in the
8 determination of EAM assures that Entergy has the financial wherewithal to
9 award incentive compensation for the performance year. Once funded, non-
10 executive employees are only paid incentive compensation to the extent
11 operational-based targets set for the respective employee's workgroup or personal
12 performance were achieved. Thus, as discussed above, all annual incentive
13 compensation awards to employees—except for awards made to the members of
14 the Office of the Chief Executive under the EAIP—are exclusively tied to the
15 achievement of operational performance metrics.

16
17 Q25. PLEASE EXPLAIN HOW ANNUAL INCENTIVE AWARDS FOR THE
18 MEMBERS OF THE OFFICE OF THE CHIEF EXECUTIVE ARE
19 DETERMINED.

20 A. Annual incentive compensation awards to the nine members of the Office of the
21 Chief Executive are determined using a two-step process. The first step is to
22 determine the annual incentive compensation payout for these executive officers.
23 This determination is based on the EAM formula, which, as noted above includes

1 a financially based component. The second step is to determine how much that
2 award should be adjusted, based on individual performance. This determination
3 is based on the individual performance of each officer as measured across a series
4 of individual performance goals.

5
6 **3. Entergy's Long-Term Incentive Programs**

7 Q26. PLEASE DESCRIBE ENTERGY'S LONG-TERM INCENTIVES.

8 A. Entergy's long-term incentives are comprised of: (1) restricted stock, (2) stock
9 options, and (3) performance units under the Performance Unit Program ("PUP").
10 These programs are described in detail in the 2019 Omnibus Incentive Plan
11 ("OIP"), which is provided as Exhibit JAR-3. Long-term incentive awards are
12 granted primarily based on market benchmarking with some differentiation based
13 on achievement of individual performance. Individual long-term incentive
14 awards are granted in dollars and are discretionary based on a number of factors,
15 including employee performance. Prior to Board approval of the awards in
16 aggregate, individual awards are converted to restricted stock, stock options, and
17 target performance units based on values calculated by Pay Governance
18 (discussed later in my testimony) and award eligibility.

19 Entergy's officers, vice presidents, directors, managers, and high-level
20 individual contributors are eligible for restricted stock. There is no financially
21 based vesting condition associated with restricted stock. The only condition is
22 that the individual remains continuously employed in a full-time capacity as a
23 management level 1-6 employee or pursuant to the Entergy Phased Retirement

1 through the applicable vesting period. Shares of restricted stock vest one-third on
2 each of the first three anniversaries of the date of grant.

3 Entergy's officers are eligible for stock options and performance units in
4 addition to restricted stock. There is no financially based vesting condition
5 associated with stock option awards. The only condition is that the individual
6 remains continuously employed in a full-time capacity or pursuant to the Entergy
7 Phased Retirement through the applicable vesting period or retires, in which case
8 the options continue to vest following retirement. Stock options are granted with
9 a maximum term of ten years, and vest one-third on each of the first three
10 anniversaries of the date of grant.

11 The performance unit grant is an award of a number of units. The actual
12 payout of shares is determined based on the achievement of the performance
13 measures set by the Personnel Committee at the beginning of the performance
14 period, and the performance units, plus any dividends accrued, are paid out
15 following the conclusion of the performance period.

16 Entergy uses two performance metrics to determine award payouts under
17 the performance unit program. The first is relative total shareholder return
18 (weighted 80%), which is Entergy's total shareholder return relative to the total
19 shareholder return of the companies that make up the Philadelphia Utility Index.¹¹
20 Beginning with 2021, the second is Entergy's adjusted FFO/debt ratio (weighted
21 20%), which is the ratio of (1) adjusted funds from operations calculated as

¹¹ <https://indexes.nasdaqomx.com/Index/Overview/UTY>.

1 operating cash flow adjusted for allowance for funds used during construction,
2 working capital and the effects of securitization revenue, and any pre-defined
3 exclusions for the annual incentives; to (2) total debt, excluding outstanding or
4 pending securitization debt.¹² These metrics are evaluated based on a three-year
5 performance period (e.g., 2021-2023 performance period).

6
7 **4. Entergy's Compensation Goals**

8 Q27. PLEASE DESCRIBE ENTERGY'S COMPENSATION OBJECTIVES.

9 A. In designing its Compensation Program, Entergy seeks to attract and retain
10 qualified employees to provide safe, reliable, and affordable service to ETI's
11 customers. In order to meet these goals, Entergy must offer compensation that is
12 competitive with and structured similarly overall to that available in various labor
13 markets.

14
15 Q28. WHY IS IT IMPORTANT THAT ENTERGY PROVIDE COMPENSATION
16 THAT IS COMPARABLE TO VARIOUS LABOR MARKETS?

17 A. Entergy must employ a wide range of employees to provide safe, reliable, and
18 affordable service, including line workers, engineers, technicians, transmission
19 operators, call center representatives, welders, reliability analysts, environmental
20 analysts, accountants, HR analysts, and executive management. In hiring and
21 retaining qualified individuals, Entergy is competing with the utility industry,

¹² Prior to 2021, the second metric was tax adjusted earnings per share.

1 energy services industry, and general industry, depending on the skill set and
2 qualifications related to each occupation. In other words, Entergy recruits from
3 and loses qualified employees to these industries. For example, management
4 responsible for system operations is more specific to the utility industry, while a
5 gas buyer has employment options in the broader energy services industry, and a
6 general counsel's skill set is applicable to general industries. Thus, Entergy's
7 total compensation levels must be comparable to these labor markets so that
8 Entergy is able to compete to hire and retain qualified employees who perform the
9 daily tasks necessary to provide safe, reliable, and affordable service. If Entergy
10 offered substantially below market compensation, then the quality of management
11 and other personnel would decline over time through attrition of employees,
12 leaving Entergy to pursue more lucrative employment opportunities, and
13 consequently, so would the level of service to customers. In addition, high levels
14 of attrition of qualified employees would result in added costs for recruitment,
15 training, and lost productivity.

16
17 Q29. HOW DOES ENTERGY ENSURE THAT ITS COMPENSATION IS
18 COMPETITIVE TO THESE MARKETS?

19 A. Entergy ensures that its compensation is competitive to these markets in two
20 ways: (1) reviewing the analysis and recommendations from a nationally
21 recognized external independent compensation consultant, Pay Governance LLC;
22 and (2) performing a benchmark analysis for each job using aggregated data from

1 other companies in the utility industry, energy services industry, and general
2 industry gathered from several nationally recognized third-party surveys.

3

4 Q30. PLEASE DESCRIBE PAY GOVERNANCE'S ROLE IN ENSURING THAT
5 ENTERGY'S COMPENSATION IS COMPARABLE TO THESE MARKETS.

6 A. Pay Governance provides subject matter expertise in analyzing market survey
7 data, assessing current market conditions, reviewing the prevalence of
8 compensation elements, and evaluating market trends in executive compensation.
9 Pay Governance provides compensation information to support Entergy in
10 developing market-based compensation packages that attract, retain, motivate,
11 and reward a diverse group of employees who contribute to Entergy's long-term
12 operational and financial success.

13

14 Q31. PLEASE EXPLAIN HOW THE ABOVE-MENTIONED SURVEYS ENSURE
15 THAT ENTERGY'S COMPENSATION IS COMPETITIVE.

16 A. Entergy uses the pay data obtained from the third-party surveys to perform a
17 benchmarking analysis comparing its own compensation levels with those in
18 relevant industries. Among the companies surveyed are other investor-owned
19 utilities across the United States, major healthcare systems, manufacturers, and
20 educational institutions. Through this analysis, Entergy ensures that its pay
21 practices are competitive and reasonable. The list of recent surveys used by
22 Entergy is provided in Exhibit JAR-4.

1 midpoint of the market, in which half the companies participating in the surveys
2 in which Entergy participates pay total cash compensation (i.e., base pay plus
3 annual incentive payments) that exceeds the mid-point and half pay total cash
4 compensation below the mid-point. Benchmarking against the market median is
5 an accepted industry standard. Entergy then designs its total cash compensation
6 across all job classifications to be within a reasonable range (+/- 15%) of the
7 market median. Actual employee compensation is set within this range based
8 upon the individual employee's qualifications and experience.

9 Entergy applies this design philosophy to total cash compensation as well
10 as long-term incentives. In this way, Entergy intentionally designs its
11 compensation levels to target the market median level of compensation if its
12 employees meet the performance objectives that are established. Of course, in
13 any given year, the actual level of compensation under the incentive
14 compensation programs may be above or below the market median, but that
15 differential occurs solely due to actual performance versus the objectives.

16
17 Q34. WHY IS A "REASONABLE RANGE" OF THE MARKET MEDIAN
18 APPROPRIATE?

19 A. It is appropriate to view the market level of compensation within a reasonable
20 range (here, +/- 15%) rather than a precise, single point because there are
21 differences in how companies match job responsibilities with job titles and in how
22 companies complete their compensation survey information. These limitations do
23 not invalidate benchmark comparisons of compensation levels, but they do add an

1 element of imprecision to any comparison of compensation by job title. In
2 addition, Pay Governance supports Entergy's approach that a value between 85%
3 and 115% of the median level of compensation is appropriate because variances
4 can occur due to experience levels and performance.

5
6 Q35. DO ALL COMPANIES DESIGN THEIR COMPENSATION PROGRAM THE
7 SAME WAY?

8 A. No. While the majority of companies structure their compensation programs to
9 provide a specific value to employees through base, short-term, and long-term
10 vehicles, based on benchmarking, it is common practice for companies to
11 differentiate their pay mix (i.e., to emphasize one form of compensation over
12 another) depending on their business objectives and strategy. There is no "one
13 size fits all" answer in seeking to attract and keep employees and in seeking to
14 inspire current employees to perform at their best.

15
16 Q36. HOW THEN SHOULD A UTILITY DETERMINE ITS COMPENSATION?

17 A. A utility should employ reasonable business discretion in allocating its resources
18 among the various commonly used compensation components. As I discuss
19 below, Entergy has exercised this reasonable discretion by providing overall
20 compensation levels that are competitive in the market.

a. **Reasonableness of Entergy's Annual Incentive Programs & Requested Recovery**

3 Q37. IS IT REASONABLE FOR ENTERGY TO HAVE ANNUAL INCENTIVE
4 PROGRAMS?

5 A. Yes. These programs constitute a valuable market competitive HR practice.
6 They help maintain and boost employee morale and productivity, as well as
7 contribute to reducing employee turnover by providing recognition for employee
8 accomplishments. There are two main reasons Entergy structures its
9 compensation to include incentive compensation. First, Entergy must compete
10 across multiple industries for qualified employees. I explained above that most of
11 Entergy's competitors (relative to hiring and retaining employees) provide
12 incentive compensation, both annual and long-term, coupled with base pay and
13 benefits (e.g., insurance and retirement). As such, Entergy must structure its
14 compensation in a similar manner so that it can compete to attract and retain
15 employees who can provide safe, reliable, and affordable electric service. In
16 other words, potential and existing employees want the same opportunities at
17 Entergy to improve their pay through incentive compensation as they could obtain
18 elsewhere.

19 Second, Entergy believes a variable compensation structure that
20 differentiates an individual's pay based on performance drives enhanced
21 performance and aligns the interests of employees with our four key stakeholders,
22 who consist of our customers, employees, owners, and communities.

1 Q38. DO THESE PROGRAMS BENEFIT ENTERGY'S CUSTOMERS?

2 A. Yes. As explained above, customers benefit when the utility offers competitive
3 compensation that attracts and retains qualified employees to provide safe,
4 reliable and affordable service. In order to remain competitive, Entergy must
5 offer comparable compensation as those offered by other companies in related
6 industries. Further, because a percentage of each employee's compensation is at-
7 risk and based on performance, each employee has an incentive to achieve his
8 operational goals, which the Commission has found as benefitting customers.

9

10 Q39. DO COMPANIES IN RELATED INDUSTRIES OFFER ANNUAL
11 INCENTIVE COMPENSATION PLANS?

12 A. Yes. Tables 2a and 2b demonstrate that the vast majority of companies use
13 annual incentive plans as part of their employees' total cash compensation
14 package.

15 **Percentage of Surveyed Companies Reporting Annual Incentive Plans Similar to**
16 **Entergy's**

17 **Table 2a: World at Work 2020-2021 Salary Budget Survey**

Use of Variable Pay	2018	2019	2020	2021
Percent of Organizations Using Variable Pay	85%	84%	84%	89%



















**Table 2b: Willis Towers Watson
2021 HR Policies and Practices Report**

Use of Variable Pay	# of Organizations Responding	# of Organizations Using Variable Pay	% of Organizations Using Variable Pay
Entire Sample	469	397	85%

Q40. FOR THE TEST YEAR, DID ENTERGY USE REASONABLE TARGETS IN ESTABLISHING TARGET INCENTIVE COMPENSATION PAYMENTS FOR THE ANNUAL INCENTIVE PLANS?

A. Yes. Table 3a shows Entergy's 2021 annual incentive targets were generally below the targets of other companies when compared to related industries in the HR Policies and Practices Report, except for the middle manager and senior professional category and the executive category targets, which were slightly above the benchmark targets, but still within the +/-15% recommended range.

Table 3b compares Entergy's management and executive annual incentive targets with the 2021 Executive Database, which classifies these positions differently than the HR Policies and Practices Report. Entergy's annual incentive targets were below all benchmark targets when compared to general industry in this report.

1. *Journal of Management Studies*, 1991, 28, 1, 1-14.

[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]

Q41. WAS ENTERGY'S TOTAL ANNUAL COMPENSATION (BASE PAY AND ANNUAL INCENTIVE COMPENSATION) REASONABLE FOR THE TEST YEAR?

A. Yes. Based on my knowledge of the utility industry and the market, my familiarity with Entergy, and my experience and education with compensation principles, Entergy's total annual compensation costs, consisting of base pay and annual incentive compensation, were reasonable for the Test Year. As summarized in Table 4, total annual compensation during the Test Year was 101.13% of the market median compensation level, well within the +/- 15% range recommended.

Table 4: ETP's Total Annual Compensation Compared to Market Median

	Number of Employees Employed by or on Behalf of ETI	Total Annual Compensation for Employees Employed by or on Behalf of ETI	Total Annual Compensation for the Employees using the Market Median (50th Percentile)	Entergy's % of the Market Median
Totals	3,956	\$571,757,591.85	\$553,571,100	101.13%

Q42. DOES ENTERGY HAVE ANY OTHER INCENTIVE PROGRAMS?

A. Yes. The Entergy Rewards and Recognition Program is available on a limited basis to reward individual employees or teams for exemplary work on a special project or assignment. The Impact Award, which during the Test Year constituted a one-time cash lump sum of up to \$500.00, is an important part of the Entergy Rewards and Recognition Program. In general, Impact Awards recognize individual employees or teams for their participation and contribution on a special

1 project or assignment and recognize significant achievement such as cost savings,
2 improved work processes, innovation, extraordinary effort, an act of heroism,
3 and/or community service. Nomination of an employee or a team of employees
4 for an Impact Award is most frequently initiated by the employee's immediate
5 manager. In addition, the Company provides the Power of Thanks recognition
6 program where employees may receive recognition points valued at \$1 per point,
7 which can be redeemed for merchandise or donated to charitable organizations.

8

9 Q43. IS IT REASONABLE FOR ENTERGY TO HAVE THE REWARDS AND
10 RECOGNITION PROGRAM AND DOES IT BENEFIT CUSTOMERS?

11 A. Yes. Similar to Entergy's annual incentive programs, this program helps maintain
12 and boost employee morale and productivity. It also contributes to reducing
13 employee turnover by providing recognition for employee accomplishments.

14 ETI's customers benefit from this program because it encourages creative
15 solutions that result in more cost efficiencies, resulting in lower costs borne by
16 customers. In addition, a productive and engaged workforce tends to provide
17 better service to customers.

18

19 Q44. PLEASE DESCRIBE THE COSTS FROM ENTERGY'S ANNUAL
20 INCENTIVE PROGRAMS THAT ETI SEEKS TO INCLUDE IN ITS COST OF
21 SERVICE.

22 A. ETI seeks to recover the costs for compensation awarded to employees under
23 Entergy's annual incentive programs—EAIP, SMIP, EXIP, OSIP, TSIP, and

1 TSBP—based on the achievement of operational metrics. As discussed above, all
2 but one of Entergy's annual incentive plans—EAIP—award incentive
3 compensation using solely operations-based metrics. Further, the nine members
4 of the Office of the Chief Executive are the only Entergy employees who
5 participate in the EAIP plan who received incentive compensation awards during
6 the Test Year based, in part, on the achievement of certain financial metrics.
7 Awards to all other EAIP participants use operations-based metrics only. ETI is
8 not seeking recovery of the costs tied to the financially based portion of the EAIP.
9 As described by Ms. Lofton, ETI has removed approximately \$356,796 in affiliate
10 costs relating to the portion of EAIP based on financially based payment
11 triggers.¹⁵ This is consistent with the methodology utilized by the Commission in
12 ETI's last fully litigated rate case, Docket No. 39896.

13
14 Q45. PLEASE DESCRIBE THE BASIS OF THE COMMISSION'S DECISION IN
15 DOCKET NO. 39896.

16 A. In that case, the Commission acknowledged that while a majority of Entergy's
17 annual incentive compensation awards to employees are based on the
18 achievement of operational measures, some are based on the achievement of
19 financial goals. The Commission found that incentives to achieve operational
20 measures are necessary and reasonable to provide utility services but those to

¹⁵ Exhibit JAR-2 shows the annual incentive payouts based on performance in the Test Year by dollars and percent allocations.

1 achieve financial measures are not because they provided a more immediate and
2 predominant benefit to shareholders.

3

4 Q46. ARE YOU AWARE THAT THE COMMISSION’S POLICY ON RECOVERY
5 OF INCENTIVE COMPENSATION EXPENSE HAS EVOLVED SINCE
6 DOCKET NO. 39896?

7 A. Yes. It is my understanding that in Docket Nos. 43695 and 46449, the
8 Commission disallowed portions of Southwestern Public Service Company
9 (“SPS”) and Southwestern Electric Power Company’s (“SWEPCO”) annual
10 incentive compensation expense based on the utilities’ use of a financially based
11 funding trigger. This was in addition to the disallowance of incentive
12 compensation awards to employees based on the achievement of certain
13 financially based goals.

14 In Docket No. 43695, the Office of Public Utility Counsel (“OPUC”)
15 suggested that because SPS’s annual incentive compensation program had an
16 earnings-per-share affordability trigger, which must be reached before the
17 incentive compensation is paid to employees, the expense is financially based.
18 Ultimately, the Commission adopted OPUC’s suggestion of a 50/50 split between
19 customers and shareholders, recognizing that SPS’s incentive compensation plan
20 was complicated and included both financially based and operations-based
21 metrics.

22 In Docket No. 46449, the Commission considered SWEPCO’s annual
23 incentive compensation plan, which also incorporated a funding trigger, based, in

1 part, on earnings-per-share. There, the Commission applied the 50%
2 disallowance policy adopted in Docket No. 43695 proportionally to the funding
3 percentage tied to the earnings-per-share metric, resulting in a reduction of 37.5%
4 of SWEPCO's annual incentive compensation expense.

5
6 Q47. IN YOUR OPINION, SHOULD THE COMMISSION RECONSIDER ITS
7 POLICY OF DISALLOWING A PORTION OF ANNUAL INCENTIVE
8 COMPENSATION EXPENSE BASED ON THE USE OF A FINANCIALLY
9 BASED FUNDING MECHANISM?

10 A. Yes, the Commission should reconsider its policy for two reasons. First, as the
11 Administrative Law Judges ("ALJs") stated in their Proposal for Decision in
12 Docket No. 43695, an "earnings-per-share [affordability] trigger is indicative of
13 sound fiscal policy: if [SPS's parent] fails to meet its specific goal, the [annual
14 incentive compensation] is not paid." The affordability trigger ensures that
15 utilities only pay incentive compensation when they are financially able to do so.
16 It would be imprudent for a utility to pay incentive compensation for
17 operationally based achievable goals regardless of its financial state. For
18 example, if a utility were required to pay incentive compensation for achievement
19 of operational goals, but failed to generate sufficient revenue or cash, then paying
20 the incentives simply because the operational metrics were met without regard to
21 the financial health of the company could weaken the utility's credit rating and its
22 ability to attract capital at reasonable rates. A utility needs to be financially sound

1 in order to have access to capital on reasonable terms to fund the investments
2 necessary to provide safe and reliable service.

3 Second, as discussed above, ETI is not seeking recovery of the financially-
4 based portion of the EAIP awards to the members of the Office of the Chief
5 Executive. Consequently, the disallowance of additional incentive compensation
6 expense—which was awarded solely based on the achievement of operational
7 metrics—simply because of the use of a financially based funding mechanism
8 would deprive ETI of recovery of reasonable and necessary compensation
9 expense incurred to provide customers with safe and reliable service. Entergy has
10 designed its total compensation package, including the annual incentive
11 compensation portion, to be market competitive, which is necessary to attract and
12 retain highly qualified individuals to provide exceptional service to the customers
13 in its service area. It is important that Entergy provide compensation comparable
14 to its competitors, or it will experience high rates of attrition, leading to higher
15 costs for training and lower quality of service, negatively impacting customers.

16
17 Q48. ARE THERE ANY OTHER REASONS?

18 A. Yes, in my experience, employees are focused on achieving their own business
19 unit's or organization's operational-based objectives, not Entergy's affordability
20 metrics, which they have little control over. This demonstrates that Entergy's
21 focus in establishing and implementing its incentive program is based on
22 operational metrics and that the financially based funding metrics are just a
23 backstop to ensure the Company is in a position financially to issue the payments.

1 Q49. ARE YOU AWARE OF ANY STUDIES THAT HAVE ANALYZED THE
2 CORRELATION BETWEEN CUSTOMER INTERESTS AND INCENTIVES
3 OR PROFITABILITY?

4 A. Yes, empirical research has been conducted that identifies a strong positive
5 relationship between customer satisfaction and financial performance. In
6 particular, I am aware of three peer-reviewed studies, two of which are specific to
7 the utility industry. These three studies are provided as Exhibit JAR-5.

8
9 Q50. PLEASE SUMMARIZE THOSE STUDIES.

10 A. The first study was a controlled study performed at Southern Company using two
11 similar groups of employees. The compensation for one group was structured to
12 include annual incentives, and the compensation for the second group was
13 structured as base pay only. The results of the study show that the first group
14 with annual incentives outperformed the second group on 10 out of 11
15 productivity measures, including cost reduction measures (greater than two
16 million dollars saved), division productivity measures (e.g., meter reading
17 efficiency, employee safety, absenteeism reduction), and teamwork.

18 The second study analyzed a broad range of industries by evaluating the
19 performance of firms that had adopted a PUP for executives before and after the
20 adoption of the PUP. A control group of firms with no PUP was included in the
21 study to verify that the results of the study appropriately isolated the effects of
22 adopting the PUP. The study found that PUPs strongly correlated with positive
23 customer and employee outcomes, in addition to shareholders. The study also

1 found that the association between executive compensation and a firm's key
2 stakeholders (i.e., shareholders, customers, and employees) significantly increased
3 when comparing pre-adoption of a PUP versus post-adoption of a PUP.

4 The third study compared American Customer Satisfaction Index
5 customer satisfaction scores for all publicly traded U.S. utility companies for
6 years 2001 through 2017 to publicly available information on utility operations
7 and costs. The study results delineate a strong positive relationship between
8 customer satisfaction and a firm's profitability. The study finds that higher
9 customer satisfaction correlates to increased profitability obtained primarily from
10 reducing operating costs. Customer satisfaction was also found to be a positive
11 predictor of utility employee productivity.

12 In sum, these studies rely on analysis of empirical data to arrive at
13 conclusions that profitability-based incentives are not contrary to customers'
14 interests. Thus, apart from the necessary role a financial funding trigger plays in
15 assuring the utility can afford to pay incentives, and my experience that
16 employees are focused on achieving their own business unit's or organization's
17 operational-based objectives, there is evidence that the presence of a financial
18 funding trigger is aligned with customer interests.

A. No, ETI has removed all expenses for stock options and performance units.

A. ETI seeks recovery for the costs associated with its restricted stock program, which is consistent with Commission precedent.

A. Yes. In addition to annual compensation, Entergy must provide long-term incentives to ensure that its employees' total compensation is comparable to the utility industry, energy sector industry, and the general industry. As shown below, publicly traded companies generally provide their employees with long-term incentives and Entergy's long-term incentives during the Test Year fall within a reasonable range of the market median.

Q54. ARE EQUITY-BASED LONG-TERM INCENTIVE COMPENSATION PROGRAMS COMMONLY USED BY GENERAL INDUSTRY?

A. Yes. Equity-based long-term incentive programs are common among publicly traded companies. Table 5 shows that most of the S&P companies and all the top 25 largest U.S. investor-owned utilities provide a long-term incentive program. In addition, the table shows that while performance units and restricted stock are used by the vast majority of companies, stock options continue to be utilized as well to attract and retain talent. These types of long-term incentive plans place a greater portion of compensation at risk compared to compensation programs that do not have variable pay strategies.

[REDACTED]

[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]

Q55. DID ENTERGY USE REASONABLE TARGETS IN ESTABLISHING THE LONG-TERM INCENTIVES DURING THE TEST YEAR?

A. Yes, each year Pay Governance, the nationally recognized compensation consultant, provides a benchmark analysis of the expected value of Entergy's long-term incentives. The benchmarked data on the long-term incentives at market median is presented in the analysis as an expected dollar amount. The

[REDACTED]

1 Board of Directors reviews this data and approves the recommended long-term
2 incentive targets for the employee's job or management level as of December 31st
3 of the plan year.

4

5 Q56. HOW DO YOU ENSURE THAT THESE LONG-TERM INCENTIVES ARE
6 AWARDED AT REASONABLE MARKET LEVELS?

7 A. As I explained earlier, the Entergy compensation program, including the long-
8 term incentives, are benchmarked by Pay Governance to determine their
9 prevalence and target value to ensure they are both competitive and reasonable by
10 comparing them with the electric utility industry as well as general industry.

11

12 c. Conclusion

13 Q57. BASED ON THE ABOVE-DESCRIBED ANALYSIS, WHAT CONCLUSION
14 DO YOU DRAW REGARDING THE REASONABLENESS OF ENTERGY'S
15 OVERALL COMPENSATION PROGRAM?

16 A. From this analysis, I conclude that Entergy's compensation program is reasonable
17 and that its design has yielded a reasonable combination of base pay, annual
18 incentive compensation, and long-term incentive compensation during the Test
19 Year.

B. Benefit Plans

1. Entergy's Benefit Plans

Q58. PLEASE DESCRIBE THE BENEFIT PLANS PROVIDED BY ENTERGY TO ITS EMPLOYEES.

A. The benefit plans consist of: (1) medical, dental, and vision plans; (2) a reimbursement plan that includes a health care flexible spending account ("FSA") and a dependent day care FSA; (3) a long-term disability plan; (4) a life insurance plan that includes employee group-term life insurance as well as accidental death and dismemberment insurance; (5) tax-qualified retirement plans, including defined benefit pension plans and defined contribution plans that include a 401(k) feature; (6) OPEB; and (7) non-tax-qualified retirement plans.

The costs of providing many of these programs are shared between Entergy and its employees. The cost sharing allows Entergy to provide competitive benefits programs to employees, while maintaining total compensation costs that are comparable with industry medians.

Q59. YOU HAVE LISTED SEVEN CATEGORIES OF BENEFIT PLANS. PLEASE DESCRIBE THOSE PLANS.

A. The following summary describes the primary plans offered during the Test Year.¹⁷

¹⁷ As with my discussion of the compensation programs, although I may describe the benefit plans using the present tense, my testimony describes the offerings and practices during the Test Year.