

**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

Entergy Services, Inc.,)	
)	
on behalf of the Entergy Operating)	Docket No. RT01-75
Companies: Entergy Arkansas, Inc., Entergy)	Docket No. ER01-_____
Gulf States, Inc., Entergy Louisiana, Inc.,)	Docket No. ER01-_____
Entergy Mississippi, Inc., and Entergy)	Docket No. ER01-_____
New Orleans, Inc.)	

**DIRECT TESTIMONY
OF
FRANK F. GALLAHER

ON BEHALF OF
ENTERGY SERVICES, INC.**

December 29, 2000

I. INTRODUCTION

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Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Frank F. Gallaher. My business address is 639 Loyola Avenue, New Orleans, Louisiana, 70113.

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

A. I am employed by Entergy Services, Inc. (“ESI” or “Entergy Services”) as President, Fossil Operations & Transmission.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND.

A. I am a graduate of Mississippi State University, where I earned a Bachelor of Science degree in Electrical Engineering (1968) and a Master of Science degree in Electrical Engineering (1969). I am also a graduate of Mississippi College, where I earned a Master of Business Administration degree (1976) and a Doctor of Jurisprudence degree (1981).

Q. PLEASE DESCRIBE YOUR PROFESSIONAL CERTIFICATIONS AND MEMBERSHIPS IN PROFESSIONAL ASSOCIATIONS.

A. I am a registered professional engineer in Mississippi and a member of the Mississippi Society of Professional Engineers. I am a member of the Institute of Electric and Electronic Engineers (“IEEE”), the IEEE Power Engineering Society, and the IEEE Engineering Management Society.

1 Q. PLEASE DESCRIBE YOUR BUSINESS EXPERIENCE.

2 A. I joined Mississippi Power & Light Company ("MP&L"), now Entergy
3 Mississippi, Inc. ("EMI"), in 1969 as an engineer in the System Planning
4 Department. During 1970 and 1971, I served as a Lieutenant in the U.S.
5 Army Signal Corps, returning to MP&L in December 1971. In 1976, I was
6 named Manager of System Planning for MP&L. My responsibilities
7 included transmission, distribution, and generation planning. In 1981, I
8 was named Director of Engineering with responsibility for planning,
9 transmission and substation design, electric meter acquisition, testing and
10 repair, right-of-way acquisition, and civil engineering. In addition to the
11 previously described engineering duties, in 1984, I was named Assistant
12 Vice President, Engineering and Production, with responsibility for design,
13 construction, operation, and maintenance of MP&L's generating units. In
14 1985, I was named Vice President and Chief Engineer with duties in
15 transmission operations, substation construction and maintenance, and
16 communication added to my responsibilities in Engineering and
17 Production. In late 1990, I was named Vice President, System Planning
18 for Entergy Services, in which role I headed the system planning function
19 for all of the Entergy Operating Companies.¹ In July 1992, I was named
20 Senior Vice President and Fossil Operations Officer for Entergy Services
21 and Senior Vice President, Fossil Operations, for AP&L, LP&L, MP&L, and

¹ At the time, the Entergy Operating Companies included Arkansas Power & Light Company ("AP&L"), Louisiana Power & Light Company ("LP&L"), MP&L, and New Orleans Public Service Inc. ("NOPSI").

1 NOPSI. In November 1993, I was elected Executive Vice President,
2 Fossil Operations and in January 1994, I assumed the additional roles of
3 President of Gulf States Utilities Company and Merger Implementation
4 Manager. In February 1996, I was named Executive Vice President,
5 Operations, for each of the five Operating Companies, Entergy Arkansas,
6 Inc. ("EAI") (formerly AP&L), Entergy Gulf States, Inc. ("EGS") (formerly
7 Gulf States Utilities Company), Entergy Louisiana, Inc. ("ELI") (formerly
8 LP&L), Entergy Mississippi, Inc. ("EMI") (formerly MP&L), and Entergy
9 New Orleans, Inc. ("ENO") (formerly (NOPSI). In May 1996, another
10 individual was named President, Entergy Texas, assuming my duties and
11 responsibilities for Entergy Gulf States' operations in Texas, and in July
12 1996, my responsibilities as Merger Implementation Manager were
13 completed. In May 1997, I was named Group President, Chief Utility
14 Operating Officer and held that position until I was named to my current
15 position.

16

17 Q. PLEASE DESCRIBE YOUR CURRENT DUTIES FOR THE SYSTEM.

18 A. My duties include the supervision and oversight of the energy
19 management function, and the operation, engineering, construction, and
20 maintenance of all fossil-fueled generating units on the System and of all
21 transmission facilities on the System. These general supervisory
22 responsibilities focus on ensuring the continued reliable operation of the
23 electric generation and transmission systems.

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2 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

3 A. My testimony is divided into four sections. First, I describe this Section
4 205 Filing. Second, I will discuss the need for innovative rates for Transco
5 and what Entergy is proposing as incentives for transmission expansion.
6 Third, I will set out the costs and benefits associated with the incentive
7 rates being proposed for Transco. Finally, I will discuss additional rate
8 and service issues associated with Transco.

9

10 **II. SECTION 205 FILING**

11 Q. PLEASE DESCRIBE THE FILING THAT ENTERGY IS MAKING
12 CURRENTLY.

13 A. This Section 205 Filing contains the rate schedules establishing the
14 proposed rates for transmission service across the facilities owned and/or
15 leased by the Transco ("Appendix TR"). It is anticipated that Appendix TR
16 will become part of the regional transmission tariff for the SPP Partnership
17 RTO. As currently envisioned, Transco would become a zone within SPP
18 with its own "license plate" rate for transmission service that sinks within
19 the current Entergy system. This filing also sets forth the Transco's
20 proposed treatment of the costs of constructing new transmission facilities
21 and explains and justifies the incentive ratemaking treatment that Entergy
22 is requesting as part of the establishment of Transco.

1 Accompanying this filing is Direct Testimony sponsored by me (the
2 purpose of which is described above) and by Messrs. Gilbreath (to present
3 and support Transco's initial rates); Wright (to present the cost support for
4 the operation of the Transco); Fairchild (to describe the independent
5 appraisal of the cost of capital to the Transco and justify why a 13 percent
6 return on equity is appropriate); Schnitzer (to explain the need for market-
7 funded expansion); Randall (to describe the calculation of the total costs
8 associated with the formation of the Transco and how those costs will be
9 recovered through the exact recovery methodology) and Bartlett (to
10 describe the ancillary services that will be offered by the Transco and the
11 performance-based rates (PBR) performance factors that will be used).

12

13 Q. WHAT OTHER FILINGS DOES ENTERGY PLAN TO MAKE
14 REGARDING THE FORMATION OF THE TRANSCO AND THE
15 QUALIFICATION OF THE SPP PARTNERSHIP RTO?

16 A. At this time, Entergy anticipates that the SPP will file in the first half of
17 2001 a revised SPP Partnership RTO Transmission Tariff ("SPP
18 Partnership RTO Tariff") that incorporates the agreed upon congestion
19 management structure and further describes the market structure to be
20 adopted within the SPP/Transco region. As the details of the SPP
21 Partnership RTO Tariff are still being finalized, Entergy will review
22 Appendix TR to ensure that it is consistent with, and can be incorporated
23 into, the SPP Partnership RTO Tariff. Since it is anticipated that

1 modifications to Appendix TR may become necessary in order to
2 accommodate the agreed upon congestion management plan, Entergy will
3 file for such modifications concurrently with, or shortly after, the filing by
4 SPP of its revised tariff.

5

6 Q. WHAT SPECIFIC AUTHORIZATIONS ARE BEING REQUESTED IN
7 THIS FILING?

8 A. By this filing, Entergy is submitting the Transco's Appendix TR for
9 Commission approval under Section 205 of the FPA. As discussed
10 above, these rate schedules will become part of the SPP Partnership RTO
11 Tariff. For Appendix TR, Entergy is proposing an effective date of the day
12 Transco begins to provide transmission service, which Entergy anticipates
13 will be January 1, 2002. Entergy intends for Transco to be in place on
14 December 15, 2001, consistent with Order No. 2000.

15 Entergy is also seeking approval, under Section 205 of the FPA, of the
16 Transmission Cost Transition Agreement ("TCTA") (Attachment J) and the
17 Open Access Distribution Service ("OADS") tariff (Attachment L). Entergy
18 believes that its rate proposal for the Transco, and accompanying rate
19 filings, are just, reasonable, and not unduly discriminatory or preferential.
20 Because of the transfer of transmission facilities from the Operating
21 Companies to Transco, Entergy is also filing a notice of cancellation for
22 Service Schedule MSS-2, Transmission Equalization, of the Entergy
23 System Agreement.

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III. INNOVATIVE RATES

3 Q. WHY HAS ENTERGY PROPOSED INNOVATIVE RATES FOR
4 TRANSMISSION EXPANSION?

5 A. Since the adoption of Order No. 888, there have been substantial
6 increases in the number of new participants in the electric industry in the
7 form of independent and affiliated power marketers and generators. As a
8 result, there have been dramatic increases in the volume of trades in the
9 industry, particularly sales by power marketers. In addition, since 1996,
10 there has been a dramatic increase in the number of merchant plants that
11 sell into the open market that have become a major source of new
12 generation. In Entergy's region alone, roughly 70,000 MW of new
13 generation are in the queue for interconnection studies.

14 State efforts to introduce retail competition have been dramatic as
15 well. In excess of 20 states have either enacted electric restructuring
16 legislation or issued regulatory orders implementing retail competition. So
17 far, there have been electric restructuring efforts in two of the states in
18 which Entergy operates: Texas and Arkansas.²

19 Because of this dramatic growth in trading, traditional forms of
20 operating the grid are showing signs of strain. As noted by the
21 Commission in Order No. 2000, there has been a substantial increase in

² The Arkansas Public Utility Commission, however, has proposed to the Arkansas Legislature that electric utility restructuring be delayed.

1 the use of the North American Electric Reliability Council's transmission
2 line loading relief (TLR) procedures.

3 In response to the Commission's invitation in Order No. 2000,
4 Entergy has developed and submits three proposals to affirmatively
5 promote and expedite new transmission investment, and to provide
6 Transco with tangible performance incentives. Transmission investment
7 needs to be encouraged and fairly rewarded. Traditional cost-of-service
8 ratemaking will not, in and of itself, been sufficient to attract needed
9 investment in the transmission grid necessary to support a thriving and
10 competitive power market.

11

12 Q. WHAT ARE THE PROPOSED INNOVATIVE RATE TREATMENTS FOR
13 THE TRANSCO?

14 A. In Order No. 2000, the Commission described several innovative pricing
15 treatments. While Entergy has developed rates that reflect traditional
16 cost-of-service principles, Entergy is proposing several incentive
17 structures to accompany these rates. First, Entergy is proposing that
18 certain projects be funded by market participants rather than through
19 rates, and that Transco be given an incentive to market and support such
20 projects. Second, Entergy is proposing that Transco be allowed to
21 recover an enhanced ROE on certain rate-funded expansion projects that
22 support regional markets. Third, Entergy proposes to employ certain
23 performance-based rate mechanisms in Transco.

1

2 Q. PLEASE EXPLAIN THE DIFFERENCE BETWEEN PARTICIPANT-
3 FUNDED AND RATE-FUNDED EXPANSION.

4 A. Under Transco's transmission investment plan, there will be three major
5 categories of projects. First, there are Base Case projects. In his
6 testimony, Mr. Bartlett sets out in more detail the types of projects in this
7 category, but essentially they are projects necessary to maintain system
8 reliability. On the opposite end of the spectrum are participant-funded
9 expansion projects. As set out more fully in the testimony of Mr.
10 Schnitzer, participant-funded projects are those projects in which market
11 participants fund transmission upgrades in order to increase transmission
12 capacity. These market participants will receive a portion of the
13 transmission rights created by the expansion. Entergy is also proposing
14 an incentive for Transco to market and develop such projects, as Mr.
15 Schnitzer explains.

16 However, as explained in the testimony of Mr. Schnitzer, there may
17 be certain expansion projects that are not susceptible to participant
18 funding because the project would increase capacity on the transmission
19 system such that the new transmission rights created by the project may
20 have limited value as congestion hedges, nonetheless, the construction of
21 these projects may still be in the public interest. These projects, which are
22 not necessary for reliability purposes, but will create a more robust
23 regional energy market, would not have the proper incentive for funding.

1 For these investments, Entergy is proposing that the Transco be
2 authorized to earn an incremental return on equity of 300 basis points.
3 This enhanced ROE proposal is consistent with the Commission's
4 recognition in Order No. 2000 that different types of investments may face
5 different levels of risk and that non-traditional ROE-based initiatives may
6 be warranted.

7 The enhanced ROE is an incentive to undertake these types of
8 rate-funded expansions. The Commission has recognized in Order No.
9 2000 that incentives for rate-funded transmission expansion are important.
10 Projects that economically increase the throughput of the system are a
11 necessary piece of the new market structure, and certain of these projects
12 simply may not be susceptible to participant funding. An incentive is
13 appropriate for these types of projects.

14

15 Q. PLEASE DESCRIBE THE PROPOSED PBR MECHANISMS.

16 A. Entergy is proposing a PBR mechanism be implemented that permits the
17 Transco to earn an increased return when it performs well and,
18 correspondingly, reduces its return when its performance declines. To this
19 end, performance mechanisms are included in the rate proposal as a
20 potential adjustment of the Transco's rate structure either up or down
21 depending on the performance of the Transco. Under the proposed
22 performance mechanisms, the Transco will receive rewards or penalties

1 based on whether its performance is greater than or less than benchmark
2 levels.

3 As discussed in the testimony of Mr. Bartlett, the proposed
4 performance factors will allow Transco to gauge the quality of service
5 being provided to its transmission customers as well as the reliability of
6 service in the Transco region. As discussed in greater detail in the
7 testimony of Mr. Randall, the PBR mechanisms provide Transco the
8 opportunity to earn a higher rate of return in the event its performance
9 exceeds the benchmark. Furthermore, in the event Transco's
10 performance falls below the benchmark, the PBR mechanisms penalize
11 Transco by reducing its authorized rate of return. However, as explained
12 in the testimony of Mr. Randall, the bandwidth or deadband contained in
13 the PBR structure also incents Transco to operate in an efficient manner.
14 The proposed PBR structure incents Transco to pursue reliability and
15 service improvements in an efficient manner, which in turn will provide
16 tangible benefits to Transco's transmission customers.

17

18

IV. COST/BENEFIT ANALYSIS

19 Q. WHAT ARE THE RELATIVE COST AND BENEFITS OF THE
20 INNOVATIVE RATE TREATMENTS?

21 A. In Order No. 2000, the Commission emphasized that RTOs should: (1)
22 improve grid management; (2) increase reliability; (3) improve market
23 performance; (4) remove opportunities for discriminatory transmission

1 pricing; and (5) facilitate lighter handed regulation. The priorities of
2 Transco are consistent with each of these goals and the proposals
3 presented by Entergy support the Commission's outlined objectives.
4 Moreover, the benefits of Transco will be shared equitably between
5 transmission owners and customers.

6 The proposed innovative rate treatments present the potential for
7 significant benefits to Transco and customers. The incentives within the
8 innovative pricing proposal will facilitate efficiency and reliability as it
9 relates to the short-run operation of Transco's system and to long-term
10 investments for the enhancement of system capabilities. Under the PBR
11 mechanisms, if Transco performs well, it will be rewarded; if it does not
12 perform well, Transco will be penalized financially. Moreover, the
13 proposed performance measures will help gauge the quality of the
14 operational functions. The performance measures will provide Transco
15 with useful data in order to improve efficiency.

16 Furthermore, the incentives for participant-funded and regional
17 market investments will help make the economic expansion of the
18 transmission grid more likely. As explained in the testimony of Mr.
19 Schnitzer, the projects that qualify for these incentives will be those that
20 increase the transfer capability of the grid, thereby improving the market
21 performance and competition among generators. In this way, greater
22 efficiencies will be gained as a result of the direct effects of these
23 transmission improvements on competition.

1 These innovative rate treatments will benefit consumers. Under the
2 PBR proposal, Transco will have an incentive to provide efficient and
3 reliable service or suffer economic consequences. The expansion
4 incentives will improve the performance of electricity markets by enlarging
5 the wholesale market. Increasing the range of feasible transactions has a
6 direct effect on competition that can ultimately create lower energy prices
7 to consumers, especially during high demand periods.

8

9 **V. ADDITIONAL RATE AND SERVICE ISSUES**

10 Q. HOW WILL APPENDIX TR WORK IN CONJUNCTION WITH THE SPP
11 PARTNERSHIP RTO TARIFF?

12 A. In Docket No. RT01-34, SPP has filed with the Commission its proposed
13 RTO Tariff. Appendix TR is currently envisioned as an Appendix to the
14 SPP RTO Tariff, which is anticipated to be filed in the first half of 2001.
15 Appendix TR will contain the rate schedules that govern service over
16 Transco's transmission system. Under SPP's license-plate rate structure,
17 Transco will be a zone within SPP. Transco will also have control over
18 various commercial terms associated with the SPP Partnership RTO
19 Tariff, which I will discuss later in my testimony.

20

21 Q. HOW WERE THE TRANSCO RATE SCHEDULES DEVELOPED?

22 The Transco rate schedules were developed using for the most part the
23 current Entergy OATT rate structure and formulas. The major difference

1 between the Transco rate schedules and the Entergy rate schedules is
2 that Transco is proposing an exact recovery mechanism for the first three
3 years of Transco's existence.

4

5 Q. PLEASE DESCRIBE THE EXACT RECOVERY PROPOSAL.

6 A. For the Transco, Entergy is proposing an exact recovery of the revenue
7 requirement for the first three years. This exact recovery mechanism will
8 account for any differences between actual results and Transco's budget
9 projections. The exact recovery mechanism will correct for any over-
10 collections or under-collections, with the revenue requirement difference
11 added to the revenue requirement of the following year with interest
12 determined according to the Commission's regulations. As explained in
13 the testimony of Mr. Gilbreath, after three years, Transco would convert to
14 Entergy's current formula rate model whereby Transco would conduct
15 prospective annual rate determinations based on prior year actual costs.

16

17 Q. WHY IS AN EXACT RECOVERY MECHANISM APPROPRIATE FOR
18 THE TRANSCO?

19 A. Entergy is proposing the exact recovery mechanism due to the unique
20 circumstances surrounding the formation of the Transco. Transco, an
21 independent incentive-driven transmission company, will be a brand new
22 entity with no prior cost history. Furthermore, the implementation of the
23 new regional market structure involves the development of new

1 procedures and services, such as congestion management. There is a
2 potential risk that the projected 2002 costs that have been utilized to form
3 the revenue requirement will vary greatly during the first three years of
4 Transco's operations. Entergy believes that neither Transco nor its
5 customers should bear the risks that the costs associated with
6 transitioning to the new RTO structure will be greater or less than those
7 currently projected. In addition, the bandwidth and revenue sharing
8 mechanisms will not apply until after the three year exact recovery period
9 has ended.

10

11 Q. IS THERE A POTENTIAL FOR COST SHIFTS AMONG THE
12 OPERATING COMPANIES ASSOCIATED WITH THEM TAKING
13 SERVICE PURSUANT TO THE PROPOSED APPENDIX TR RATE
14 SCHEDULE?

15 A. Yes. That is why Entergy is proposing, in conjunction with this filing, the
16 TCTA (Attachment J). The TCTA establishes a schedule of payments that
17 allow the Operating Companies and their customers to transition to the
18 system-wide rate structure over a period of three years. As explained in
19 the testimony of Mr. Gilbreath, those Operating Companies that will
20 experience a reduction in their transmission costs as a result of moving to
21 the system-wide rate structure will make payments to those Operating
22 Companies that will experience an increase in their transmission costs as
23 a result of moving to such a structure. The payment are designed to

1 cause the decrease or increase to be phased-in in 25 percent increments
2 over a three year period, with the full decrease or increase accruing to the
3 applicable company in the fourth year.

4 Each month, during the transition period from January 2002
5 through December 2004, ESI, acting as agent for the Operating
6 Companies, shall see that a wire transfer of funds in the amount of the
7 applicable monthly payments shall be made to the designated account of
8 each receiving company from each of the designated paying companies.

9

10 Q. PLEASE DESCRIBE HOW ANCILLARY SERVICES WILL BE
11 PROVIDED.

12 A. Transco will be a stand-alone transmission company and, therefore, it will
13 have to contract with existing generators to fulfill its supplier of last resort
14 function for generation-related ancillary services under Appendix TR. For
15 Schedules 2 through 6, Transco customers have a choice to supply their
16 own ancillary services or purchase them through a third party. Until
17 appropriate markets are formed by the SPP Partnership RTO, the
18 Operating Companies, on behalf of Transco, will provide service under
19 Schedules 2 through 6. Transco will act as the billing agent for the
20 Operating Companies as well as the Transmission Customer's agent for
21 securing such service. The Operating Companies shall offer Ancillary
22 Services pursuant to a rate schedule for this service filed with the
23 Commission.

1

2 Q. HOW WILL TRANSCO TREAT GRANDFATHERED AGREEMENTS?

3 A. Entergy recognizes the importance of honoring existing contracts and is
4 not proposing to abrogate any of its current agreements. Grandfathered
5 agreements for transmission service on Entergy's transmission system fall
6 into two categories: pre-Order No. 888 contracts and transmission service
7 agreements entered into after Order No. 888 was issued. Entergy
8 proposes that the post-Order No. 888 agreements be modified to conform
9 to the SPP Partnership RTO Tariff and Appendix TR, which will succeed
10 the current Entergy OATT. Entergy is proposing this approach because
11 the rate and non-rate terms and conditions of the current Entergy OATT
12 and the proposed SPP Partnership RTO Tariff are the same in almost all
13 respects and the use of one tariff will allow transmission customers to
14 avoid any rate pancaking that might otherwise occur.

15 Regarding transmission contracts entered into pre-Order No. 888,
16 Entergy proposes that the Transco provide service under these contracts
17 in accordance with the terms of the agreements unless the parties agree
18 otherwise. Entergy is willing to negotiate with any transmission customer
19 that wants to replace its current pre-Order No. 888 contract with SPP
20 Partnership RTO Tariff service.

21 Q. PLEASE DESCRIBE THE OPEN ACCESS DISTRIBUTION SERVICE
22 ("OADS") TARIFF.

1 A. The OADS Tariff is a FERC-jurisdictional distribution tariff that will be
2 administered by Transco for distribution service to wholesale transmission
3 customers that currently take service under Entergy's OATT. Since
4 Transco will be a stand-alone transmission company with no distribution
5 facilities, it will not be able to provide distribution service. Therefore, it is
6 necessary to establish rates, terms and conditions for service over
7 distribution facilities to FERC-jurisdictional customers. Transmission
8 customers that become FERC-jurisdictional (*i.e.*, Texas Retail Electric
9 Providers) due to the implementation of a state retail access plan will not
10 utilize the OADS Tariff. The OADS Tariff is discussed in the testimony of
11 David Beekman.

12

13 Q. PLEASE DESCRIBE THE DEDICATED FUNCTION TRANSMISSION
14 SERVICE.

15 A. Entergy proposes a new category of service called Dedicated Function
16 Transmission Service (DFTS) for Transco. DFTS will apply to situations in
17 which transmission facilities installed after December 31, 2001 serve a
18 single customer. Transco will design appropriate accounting systems to
19 identify DFTS facilities and their cost. Entergy proposes to grandfather
20 any such facilities that are in place as of December 31, 2001.

21

22 Q. PLEASE DESCRIBE THE PROPOSED PARTNER POLICY.

1 A. Transco proposes to treat other entities that are willing to commit their
2 assets to Transco, either through sale, lease or operating agreement, in a
3 manner similar to that proposed for the Operating Companies.
4 Accordingly, as such partners contribute their assets to Transco, the cost
5 of those assets would be included in Transco's ratebase and recovered
6 through Transco's Rate Schedule. However, as with the Operating
7 Companies, it may be appropriate to phase-in over a specified period of
8 time the effects of including these assets in Transco's rate structure. Such
9 a policy provides incentives to customer to commit their assets to Transco.

10

11 Q. WHAT IS THE RELATIONSHIP BETWEEN THE RATES CONTAINED IN
12 APPENDIX TR AND THE ANTICIPATED SPP PARTNERSHIP RTO
13 TARIFF?

14 A. Transco will control the rate design and formulation of the revenue
15 requirement that will apply those services that do not affect or alter the
16 service provided by the other SPP member systems. The rate schedules
17 and attachments, designated as Appendix TR, will be part of the SPP
18 Partnership RTO Tariff. Transco has filed these rate schedules as part of
19 this Section 205 filing. As Entergy stated in its Section 203 filing, The SPP
20 Partnership RTO will administer a single tariff. The SPP will file a revised
21 SPP Partnership RTO Tariff during the first half of 2001. The rate design
22 for rates contained in Appendix TR are more fully explained in the
23 testimony of Rodney K. Gilbreath.

1 The rates contained in Appendix TR will apply to: (1) transactions
2 that sink in Transco; (2) transactions that source in Transco and sink
3 outside of Transco and that do not cross the systems of the other SPP
4 Members; and (3) transactions crossing Transco that do not cross the
5 systems of the other SPP Members. By including the Transco rate
6 schedules and attachments governing service within the SPP Partnership
7 RTO Tariff, the SPP Partnership RTO Tariff will provide all transmission
8 customers in the SPP Partnership RTO region with one-stop shopping.

9 In designing the transmission rates, the SPP Partnership RTO
10 Memorandum of Understanding provides that there will be no pancaked
11 rates for transmission service using both the SPP and Transco systems.
12 In order to achieve this, there will be a reciprocal waiver of access charges
13 for transactions using both systems that terminate within one of the
14 systems and a single, joint rate for through and out transactions that use
15 both systems but terminate outside the RTO's grid.

16

17 Q. HOW WILL TRANSCO CALCULATE LOSSES ON ITS SYSTEM?

18 The Transco will be responsible for calculating losses within its system but
19 will work with SPP to develop a proposal to calculate losses for
20 transactions that cross both SPP and Transco. SPP and Transco are
21 currently working toward creating a process to allocate losses that cross
22 both the SPP and Transco systems.

23

1 Q. HOW WILL SPP AND TRANSCO HANDLE NEW INTERCONNECTION
2 REQUESTS?

3 A. SPP and Transco will be responsible for generation interconnection
4 requests on their respective systems, at least initially. Both the SPP and
5 Entergy have filed with the Commission interconnection procedures to
6 govern generation interconnection requests. The procedures are
7 generally compatible in all major respects. Transco and SPP will work
8 together to develop a single set of procedures for interconnections on both
9 systems; however, in the event such procedures have not been finalized
10 when Transco becomes operational, Transco will utilize Entergy's
11 interconnection procedures in the interim. After Transco is operational as
12 part of the SPP Partnership RTO and a single interconnection procedure
13 is in place, a market participant will request interconnection studies or
14 system impact studies through the SPP Partnership RTO. If the study
15 request is within Transco's service area, it will be assigned to Transco's
16 planning department by the RTO for evaluation. Transco will use the
17 same study process developed by the SPP Partnership RTO for such
18 projects.

19

20 Q. HOW WILL TRANSCO AND SPP BILL TRANSMISSION CUSTOMERS
21 FOR SERVICE OVER THEIR RESPECTIVE SYSTEMS?

22 A. The SPP and Transco will be responsible for billing transactions that
23 terminate on their respective systems. In addition, Transco shall be

1 responsible for the billing of transactions that cross Transco's grid but not
2 the SPP grid. Likewise, SPP shall be responsible for transactions that
3 cross only the SPP grid but not the Transco transmission system. For
4 transactions that do not terminate within the RTO, but involve Transco and
5 SPP facilities, SPP and Transco will handle the billing by the system on
6 which the power exits the combined system, provided that the rate for
7 such service will be the single joint rate developed for the SPP Partnership
8 RTO. Transco will also be responsible for the billing of all directly
9 assigned facilities on the Transco system as well as the billing of all study
10 costs related to the interconnection of new generation and network
11 upgrades. This is not an exhaustive list of all services for which Transco
12 will have billing responsibility. Transco reserves the right to propose
13 additional billing responsibilities in future Section 205 filings.

14

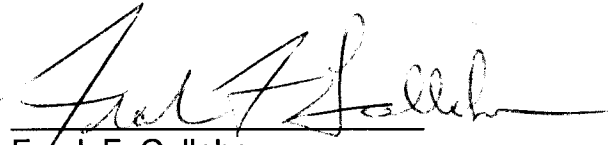
15 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

16 A. Yes.

AFFIDAVIT

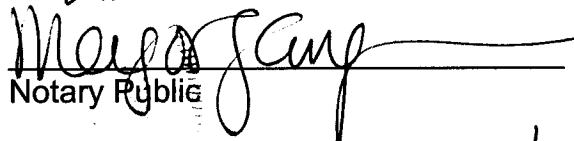
STATE OF LOUISIANA)
)
PARISH OF ORLEANS)

FRANK F. GALLAHER, being duly sworn, deposes and states:
that the attached are his sworn direct testimony and exhibits and that the
statements contained therein are true and correct to the best of his
knowledge, information and belief.



Frank F. Gallaher

SWORN AND SUBSCRIBED BEFORE ME,
this 21st day of December, 2000.



Notary Public

My Commission Expires: upon my death



MARGOT G. AUGUSTIN
NOTARY PUBLIC
Parish of Orleans, State of Louisiana
My Commission is issued for Life.