

UNITED STATES OF AMERICA  
BEFORE THE  
FEDERAL ENERGY REGULATORY COMMISSION

Entergy Services, Inc.,	)	
	)	
On behalf of the Entergy Operating	)	Docket No. RT01-75-000
Companies: Entergy Arkansas, Inc., Entergy	)	Docket No. ER01-
Gulf States, Inc., Entergy Louisiana, Inc.,	)	Docket No. ER01-
Entergy Mississippi, Inc., and Entergy	)	
New Orleans, Inc.	)	

DIRECT TESTIMONY  
OF  
RODNEY K. GILBREATH  
ON BEHALF OF  
ENTERGY SERVICES, INC.

DECEMBER 29, 2000

1 I. INTRODUCTION

2 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

3 A. Rodney K. Gilbreath, 3916 Foxcroft Road, Little Rock, Arkansas 72227.

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

5 A. Until my retirement at the end of July 2000, I was Director of Transitional  
6 Regulatory Support for Entergy Services, Inc. ("ESI"). I am now employed by  
7 ESI as a private consultant on a contract basis for services related to ESI's  
8 proposal to establish an independent transmission service company  
9 ("TRANSCO") that was filed with the Federal Energy Regulatory Commission  
10 ("FERC" or "Commission") on October 16, 2000 in FERC Docket No. RT01-  
11 75-000. As indicated in that filing, TRANSCO would be a member of the  
12 Southwest Power Pool Partnership Regional Transmission Organization  
13 ("SPP Partnership RTO").

14 Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL  
15 BACKGROUND.

16 A. My education and work experience are set out in Exhibit RKG-1.

17 Q. WHAT IS THE PURPOSE OF THE DIRECT TESTIMONY YOU ARE  
18 PRESENTING IN THIS PROCEEDING?

19 A. The general purpose of my Direct Testimony is to present and discuss the  
20 base rate structure that ESI is proposing for application to TRANSCO's  
21 transmission customers ("Customer" or "Customers") that will be served  
22 under the SPP Partnership RTO's revised Open Access Transmission Tariff  
23 ("RTO OATT"). As noted in ESI's filing in FERC Docket No. RT01-75-000,  
24 the RTO OATT will not be filed with the Commission until early in 2001. The

1 proposed base rate structure for TRANSCO is set out in Appendix TR (to the  
2 RTO OATT), which ESI has filed in this proceeding. Appendix TR is included  
3 as Attachment I in Section III. I will also present and support TRANSCO's  
4 initial base rates, except for those associated with certain Ancillary Services.  
5 In addition, I will support filing statements BB, BD, BE, BG, BH, BK and BL  
6 which are included with the Application in Section I of this filing.

7 Finally, I will discuss and support the development of the Monthly  
8 Payment Amounts set out in Table 1 in the Transmission Cost Transition  
9 Agreement ("TCT Agreement"), which ESI has filed in this proceeding (see  
10 Section III, Attachment J) on behalf of Entergy Arkansas, Inc., Entergy Gulf  
11 States, Inc., Entergy Louisiana, Inc., Entergy Mississippi, Inc., and Entergy  
12 New Orleans, Inc., referred to hereafter, collectively, as the "Operating  
13 Companies" or "Entergy". ESI witness Frank F. Gallaher discusses the TCT  
14 Agreement itself in his Direct Testimony.

15 Q. PLEASE DISCUSS HOW APPENDIX TR IS ORGANIZED.

16 A. Appendix TR is organized as follows:

17 Rates and Charges

18 Schedule 1 Scheduling, System Control and Dispatch Service

19 • Attachment 1 Scheduling, System Control and Dispatch Service  
20 Rate Formula

21 Schedule 2 Reactive Supply and Voltage Control from Generation  
22 Sources Service

23 Schedule 3 Regulation and Frequency Response Service

24 Schedule 4 Energy Imbalance Service

25 Schedule 5 Operating Reserve – Spinning Reserve Service

26 Schedule 6 Operating Reserve – Supplemental Reserve Service

- 1           Schedule 7     Point-to-Point Transmission Service Rates and Charges
- 2           • Attachment 1   Point-to-Point   Transmission   Service   Rate
- 3                           Formulas
- 4           • Attachment 2   Transmission   Service   Revenue   Requirement
- 5                           Formula
- 6           • Attachment 3   Transmission   Service   Revenue   Requirement
- 7                           Formula
- 8           • Attachment 4   Performance Rating Adjustment Formula
- 9           Schedule 8     Network Transmission Service Charges
- 10          Schedule 9     Texas Retail Electric Provider Transmission Service
- 11                           Charges
- 12          Schedule 10   Compensation for Eligible Customer-owned Transmission
- 13                           Facilities
- 14          Schedule 11   Sources and Sink Requirements for Point-to-Point Service

15 Q.    WHICH PARTS OF APPENDIX TR ARE YOU SUPPORTING?

16 A.    I support the following components of Appendix TR:

- 17           a)    Rates and Charges
- 18           b)    Schedule 1     -   Scheduling, System Control and Dispatch
- 19                           Service
- 20           c)    Schedule 7     -   Point-to-Point   Transmission   Service
- 21                           Rates and Charges
- 22           d)    Schedule 8     -   Network Transmission Service Charges
- 23           e)    Schedule 9     -   Texas   Retail   Electric   Provider
- 24                           Transmission Service Charges
- 25           f)    Schedule 10   -   Compensation for Eligible Customer-
- 26                           owned Transmission Facilities
- 27

1 ESI Witness George R. Bartlett supports Schedules 2-6 and Schedule 11 of  
2 Appendix TR.

3 **II. Entergy OATT Rate Structure**

4 Q. BEFORE DISCUSSING TRANSCO'S PROPOSED BASE RATE  
5 STRUCTURE UNDER THE RTO OATT, PLEASE DESCRIBE THE BASE  
6 RATE STRUCTURE CONTAINED IN ENTERGY'S CURRENTLY  
7 EFFECTIVE OPEN ACCESS TRANSMISSION TARIFF ("ENTERGY OATT").

8 A. The Entergy OATT rate structure consists of the following:

9 1. Point-to-Point Transmission Service ("PTPS")

10 A. Firm Transmission Service

11 i. Long-term Firm Transmission Service Rate

12 ii. Short-term Firm Transmission Service

13 a. Monthly Firm Transmission Service Rate

14 b. Weekly Firm Transmission Service Rate

15 c. Daily On-Peak Firm Transmission Service Rate

16 d. Daily Off-Peak Firm Transmission Service Rate

17 B. Non-firm Transmission Service

18 i. Hourly On-Peak Non-firm Transmission Service Rate

19 ii. Hourly Off-Peak Non-firm Transmission Service Rate

20 2. Network Transmission Service ("NTS")

21 Network Transmission Service Revenue Requirement

22 3. Texas Retail Electric Provider ("TREP") Transmission Service ("TREP  
23 Service")

1 The PTPS rate and NTS charges are defined through corresponding formulas  
2 set out in Schedule 7 and Attachment H to the Entergy OATT, respectively.  
3 Per se, there is not a rate for NTS. Charges for NTS are based on a monthly  
4 allocation of the Network Transmission Service Revenue Requirement, which  
5 is redetermined annually. The monthly allocation to each NTS customer is  
6 based on the customer's rolling 12 coincident peak ("12 CP") load ratio share.  
7 TREP Service charges, which will only apply to participants in the  
8 deregulation pilot project being conducted by the Public Utility Commission of  
9 Texas during the last seven (7) months of 2001, are similarly based on an  
10 allocation of the Network Transmission Service Revenue Requirement.

11 The rate formulas in the Entergy OATT are applied annually to  
12 redetermine the corresponding billing rates under the Entergy OATT. The  
13 redetermined rates are submitted to the Commission in an informational filing  
14 on or about May 1 of each year. Procedures set out in Schedule 7 and  
15 Attachment H to the Entergy OATT control this filing process and the  
16 associated review and implementation processes.

17 In addition, Schedule 1 to the Entergy OATT contains the Scheduling,  
18 System Control and Dispatch Service rate.

### 19 III. TRANSCO RATE STRUCTURE

20 Q. PLEASE CONTRAST TRANSCO'S PROPOSED RATE STRUCTURE TO  
21 THE ENTERGY OATT RATE STRUCTURE YOU HAVE JUST DESCRIBED.

22 A. The rate structure TRANSCO is proposing for PTPS, NTS, TREP Service and  
23 Scheduling, System Control and Dispatch Service under the RTO OATT is  
24 identical to that currently in effect under the Entergy OATT. Further,



1 A. The Rates and Charges section of Appendix TR provides a central point of  
2 focus for the rates and charges applicable to the numerous services  
3 TRANSCO will provide under the RTO OATT and also sets out certain other  
4 provisions applicable under Appendix TR. The substantive aspects of the  
5 rates and charges applicable under Appendix TR are set out in Schedules 1–  
6 9. As I mentioned earlier, Schedule 10 sets out the terms on which NTS  
7 customers may receive compensation for certain qualifying facilities. In  
8 addition, Schedule 11 sets out certain operating requirements applicable to  
9 PTPS Customers served under Schedule 7.

10 Q. PLEASE DISCUSS SCHEDULE 1 OF APPENDIX TR.

11 A. Schedule 1 to Appendix TR describes the activities that constitute  
12 Scheduling, System Control and Dispatch Service. The language in  
13 Schedule 1 is identical to that of Schedule 1 to the Entergy OATT, except for  
14 changes necessary to address the proposed rate formula applicable to this  
15 service.

16 Attachment 1 to Schedule 1 sets out the Scheduling, System Control  
17 and Dispatch Service Rate Formula (“SCD Rate Formula”). As the SCD Rate  
18 Formula indicates, the Scheduling, System Control and Dispatch Rate  
19 (“SCDR”) will be redetermined annually in conjunction with the annual rate  
20 redetermination procedures set out in Schedule 7 for the PTPS rates, which I  
21 discuss below.

22 As indicated by the SCD Rate Formula, this rate has been defined in a  
23 manner identical to that used to determine the SCDR currently in effect under  
24 the OATT. Specifically, the rate is calculated by dividing the Scheduling,  
25 System Control and Dispatch costs by an imputed energy (kWh) amount

1 based on an assumption of 24 hours of service per day, five (5) days per  
2 week and 52 weeks per year at a load equal to the annual peak demand  
3 (kW) on the transmission system at the system input level.

4 The SCDR in effect for any month is multiplied by the energy delivered  
5 to each Customer in that month, as adjusted for losses to the system input  
6 level, to determine the Customer's charge for Scheduling, System Control  
7 and Dispatch Service for that month.

8 Q. PLEASE DISCUSS SCHEDULE 7 TO THE OATT.

9 A. Schedule 7 consists of: 1) a procedural section, which defines how the PTPS  
10 formula rate structure is to be administered and billed; 2) Attachment 1, which  
11 contains the formulas for the various PTPS rates, all of which are based on  
12 the Transmission Service Revenue Requirement, as defined in either  
13 Attachment 2 or Attachment 3 ("TSRR"); 3) Attachment 2, which sets out the  
14 Transmission Service Revenue Requirement Formula ("TSRR Formula")  
15 applicable for Test Years 2002-2004; 4) Attachment 3, which sets out the  
16 TSRR Formula applicable for Test Years after 2004; and 5) Attachment 4,  
17 which sets out the development of the Performance Rating Adjustment, which  
18 I will discuss later. For simplicity, I will refer to the various formulas set out in  
19 Attachments 1-4, collectively, as the "PTPS Rate Formulas" and the billing  
20 rates determined utilizing the PTPS Rate Formulas as the "PTPS Rates."

21 Q. PLEASE CONTRAST SCHEDULE 7 OF THE OATT TO THE PTPS RATE  
22 SECTION OF THE ENTERGY OATT.

23 A. The procedural section of Schedule 7 of the OATT is materially identical to  
24 the PTPS rate section of the Entergy OATT, which is also labeled as

1 Schedule 7. The only material exceptions are the inclusion of new language  
2 related to Dedicated Facilities Transmission Service and the deletion of the  
3 Distribution Service section, which is not applicable for TRANSCO.

4 Because TRANSCO is a standalone transmission service company  
5 with its own balance sheet and income statement, the TSRR Formula, upon  
6 which all of the PTPS Rates are based, had to be defined in a different  
7 manner than its counterpart in the Entergy OATT. The revenue requirement  
8 formula utilized in the Entergy OATT is an algebraic formula that includes  
9 numerous allocations to the transmission function of the common costs of  
10 Entergy's operating companies that support the generation, transmission and  
11 distribution functions, e.g., A&G expense, general plant, taxes other than  
12 income taxes, etc. Due to the single function nature of TRANSCO, there is  
13 no need for such allocations of common costs. Further, income taxes had to  
14 be dealt with more comprehensively than in the Entergy OATT revenue  
15 requirement formula. To address these considerations, the TSRR Formula  
16 (see Schedule 7, Attachments 2 and 3), which I will discuss later in my Direct  
17 Testimony, utilizes a tabular format, rather than the algebraic format utilized  
18 in Schedule 7 to the Entergy OATT.

19 As ESI witnesses Mr. Gallaher and Mr. Randall discuss in their Direct  
20 Testimony, TRANSCO is proposing that the OATT rate structure include  
21 several performance incentives. There are no such performance-based  
22 ratemaking ("PBR") features in the Entergy OATT rate structure.

23 Finally, while ESI is proposing a formula rate structure for TRANSCO  
24 that is very similar to that currently in effect under the Entergy OATT, it is also  
25 proposing that for TRANSCO's first three years of operation (2002-2004) the  
26 formula structure be applied as an exact recovery mechanism. This is the

1 reason for having separate TSRR Formulas, as represented by Attachment 2  
2 (applicable for the 2002-2004 exact recovery period) and Attachment 3  
3 (applicable for redetermination filings beginning in 2005).

4 Q. PLEASE DESCRIBE THE DEDICATED FACILITIES TRANSMISSION  
5 SERVICE RATE STRUCTURE THAT ESI IS PROPOSING TO INCLUDE IN  
6 SCHEDULE 7.

7 A. Although all of the power transmitting facilities owned or leased by  
8 TRANSCO will be transmission for accounting purposes, DFTS recognizes  
9 that certain of those facilities may serve a single customer rather than the  
10 larger body of customers served by TRANSCO. DFTS would only apply to  
11 such facilities that go into service after December 31, 2001.

12 Q. PLEASE DISCUSS HOW A CUSTOMER RECEIVING DFTS WOULD BE  
13 CHARGED.

14 A. Because it is impossible to accurately determine all of the costs (O&M, taxes,  
15 etc.) associated with individual facilities in an accounting context, it is  
16 necessary to estimate the annual cost, or revenue requirement, associated  
17 with DFTS facilities in an indirect manner. ESI is proposing that a monthly  
18 charge be determined for the DFTS facilities serving a Customer by  
19 multiplying TRANSCO's gross investment in those facilities by the Monthly  
20 Transmission Facilities Fixed Charge Rate defined in the corresponding  
21 formula set out in Attachment 1 to Schedule 7. The Monthly Transmission  
22 Facilities Fixed Charge Rate Formula reflects TRANSCO's average cost of  
23 capital, O&M, income taxes, etc. on a per dollar of gross investment basis.

1 Q. PLEASE DISCUSS THE PBR FEATURES INCLUDED IN SCHEDULE 7.

2 A. The proposed PBR structure consists of the following components:

- 3 1) Earnings Bandwidth ("Bandwidth");
- 4 2) Sharing of earnings ("Earnings Sharing") above/below the
- 5 Bandwidth;
- 6 3) Performance factors ("Performance Factors"):
- 7 a) Energy Delivery; and
- 8 b) Voltage-Fault
- 9 4) Enhanced rate of return on equity for investment in certain
- 10 types of facilities.

11 Note that the Bandwidth and Earnings Sharing features will not apply during

12 the exact recovery period.

13 Q. PLEASE DISCUSS THE EARNINGS BANDWIDTH.

14 A. As Mr. Randall discusses in his Direct Testimony, ESI proposes that there be

15 a defined range, i.e., the Bandwidth, within which the earned rate of return on

16 rate base ("ERORB") could fall and not require either a rate increase or a rate

17 decrease. The upper limit of the Bandwidth ("Upper Band") is the

18 Performance Adjusted Cost of Capital ("PACOC"), which I discuss below,

19 plus 0.50%. The lower limit of the Bandwidth ("Lower Band") is proposed to

20 be the PACOC minus 0.50%.

21 Q. PLEASE DISCUSS THE EARNINGS SHARING FEATURE.

22 A. As long as the ERORB stays within the Bandwidth, TRANSCO's rates would

23 not be revised. If the ERORB either exceeds the Upper Band, or falls below

1 the Lower Band, then the currently effective rate level would be decreased or  
2 increased, respectively, by a revenue amount equivalent to 50% of the  
3 difference between the ERORB and the Upper Band or the Lower Band, as  
4 the case may be. However, in order to avoid very small changes in rates, no  
5 change in the rate level would be made unless it changed the rate of return  
6 on rate base for the Test Year by more than 0.05% (5 basis points).  
7 Mr. Randall discusses the Earnings Sharing provision further in his Direct  
8 Testimony.

9 Q. PLEASE DESCRIBE HOW THE PERFORMANCE FACTORS WILL AFFECT  
10 TRANSCO'S RATE LEVEL.

11 A. TRANSCO's performance will be measured by two performance factors  
12 ("Performance Factors"). Each year TRANSCO's performance on these  
13 Performance Factors will be compared to a fixed baseline level based on  
14 Entergy's average performance for the three year period from 1999 through  
15 2001. This will indicate whether TRANSCO's performance in each of these  
16 areas is improving or declining over time.

17 The two measures are combined to determine the Performance Rating  
18 Adjustment ("PRA") for each Test Year. If the PRA is positive (i.e., improved  
19 performance), it is added to the weighted average cost of capital and, thus,  
20 increases the mid-point of the Bandwidth. Symmetrically, if the PRA is  
21 negative (i.e., declining performance), it is subtracted from the cost of capital  
22 and lowers the mid-point of the Bandwidth.

23 A non-linear impact curve ( $y = ax^3$ ) has been utilized to translate the  
24 composite level of performance on the performance factors into the PRA.  
25 This has the effect of producing increasingly large benefits as performance

1 exceeds the baseline levels by greater and greater amounts and,  
2 symmetrically, increasingly large penalties as performance recedes further  
3 and further below the baseline levels. The PRA formula has been designed  
4 so that the maximum increase or decrease in TRANSCO's cost of capital,  
5 and, hence, the midpoint of the Bandwidth, would be 25 basis points (0.25%).

6 I will discuss the technical aspects of how the Performance Factors  
7 affect the rates more fully later in my Direct Testimony.

8 Q. ARE YOU SUPPORTING THE APPROPRIATENESS OF THE  
9 PERFORMANCE FACTORS YOU LISTED ABOVE?

10 A. No. I am only supporting the architecture through which these performance  
11 factors affect the determination of TRANSCO's TSRR. Mr. Bartlett supports  
12 the use of the specific performance factors set out above. He also discusses  
13 the technical aspects of the determination of these factors and their relative  
14 weighting in the determination of the PRA.

15 Q. PLEASE DESCRIBE HOW THE INVESTMENT INCENTIVE TRANSCO IS  
16 PROPOSING WOULD BE IMPLEMENTED.

17 A. ESI witness Michael M. Schnitzer discusses in his Direct Testimony why a  
18 higher rate of return on equity should apply to certain types of new plant  
19 investments. Mr. Gallaher discusses the specific differential proposed. To  
20 implement this proposal, I have included two separate cost rates for common  
21 equity in the Cost of Capital calculation, as set out on page 4 of Attachment 2  
22 (and page 5 of Attachment 3) to Schedule 7 of Appendix TR.

23 Because the enhanced rate of return on equity is to apply to only  
24 certain types of plant investment, I propose to determine Capital Amounts for

1 the Base and Incentive common equity components by proportioning the total  
2 common equity Capital Amount into these two categories based on the net  
3 plant balances associated with the Base and Incentive plant categories.  
4 These separate rates of return on common equity are then utilized to  
5 determine the overall cost of capital necessary for calculating TRANSCO's  
6 TSRR.

7 Q. DOES ENTERGY CURRENTLY HAVE ANY PBR RATE PLANS IN EFFECT  
8 THAT ARE SIMILAR TO THE ONE PROPOSED FOR TRANSCO?

9 A. Yes, it does. Entergy Mississippi, Inc. ("EMI") has had a similar rate plan in  
10 effect since 1995. In fact, the EMI Formula Rate Plan is the model for the  
11 proposed TRANSCO PBR design. In addition, since 1996 Entergy Louisiana,  
12 Inc. ("ELI") has had a Formula Rate Plan very similar to the EMI Formula  
13 Rate Plan.

14 Further, Entergy New Orleans, Inc. and Entergy Gulf States, Inc. have  
15 recently filed proposals to implement similar formula rate plans with the City  
16 of New Orleans and the Louisiana Public Service Commission, respectively,  
17 in conjunction with the proposed merger of Entergy and FPL Group, Inc.

18 I would note, however, that the proposed investment incentive is  
19 unique to this proposal.

20 Q. PLEASE DISCUSS THE ANNUAL RATE REDETERMINATION  
21 PROCEDURES THAT WOULD BE FOLLOWED UNDER SCHEDULE 7.

22 A. The redetermination procedures are materially identical to those currently  
23 utilized under the Entergy OATT. On or about May 1 of each year, beginning  
24 in 2003, TRANSCO would file a "Redetermination Report" with the

1 Commission based on data for the applicable period, or "Test Year". Each  
2 Redetermination Report would contain complete documentation of the  
3 redetermined PTPS Rates, including an organized set of workpapers  
4 supporting all of the data and calculations utilized in developing the  
5 redetermined PTPS Rates. The redetermined PTPS Rates would become  
6 effective, subject to refund or surcharge, for bills rendered on or after June 1  
7 for service rendered on or after May 1 of the filing year.

8 TRANSCO would provide the FERC Staff ("Staff") and other  
9 authorized intervenors (together with TRANSCO, collectively, the "Parties" or,  
10 individually "Party") a copy of each Redetermination Report. The Parties  
11 would then have 90 days to review the Redetermination Report to ensure that  
12 the procedures set out in Schedule 7 were properly and accurately applied to  
13 the Test Year data.

14 Should any Party, including TRANSCO, discover any error in the  
15 development of the PTPS Rates, then by the end of the 90 day review period  
16 that Party would be required to formally notify the other Parties of the error  
17 and to provide documentation for the proposed correction. TRANSCO would  
18 then have 30 days to review such indicated errors. If necessary, TRANSCO  
19 would then file corrected PTPS Rates reflecting all corrections with which it  
20 agrees. Each of the Parties would then have 30 days to review the corrected  
21 filing and to file a complaint if TRANSCO fails to address any alleged  
22 complaint in a satisfactory manner.

23 The corrected PTPS Rates, if any, would then become effective for  
24 bills rendered in October for the service month of September of that year.  
25 Normally, those PTPS Rates would then remain in effect until superseded by  
26 PTPS Rates implemented subsequent to the Redetermination Report filed on

1 the following May 1. If necessary, refunds or surcharges, as applicable,  
2 would be made after the redetermined PTPS Rates become final.

3 Q. PLEASE DESCRIBE HOW A DISAGREEMENT REGARDING AN  
4 INDICATED ERROR, OR ITS CORRECTION, WOULD BE RESOLVED.

5 A. The procedure for resolving disputed issues is set out in Paragraph 6 of  
6 Schedule 7. Basically, it provides that the undisputed portion of any  
7 corrected PTPS Rates would go into effect on the regular schedule subject to  
8 refund or surcharge. Any Party disputing an error, or the proposed  
9 correction, would file a complaint, which would be addressed by the  
10 Commission under its normal procedures. If the resolution of such a  
11 complaint required further changes in the PTPS Rates, TRANSCO would  
12 submit revised PTPS Rates in accordance with the Commission's findings.  
13 TRANSCO would then apply refunds or surcharges to all applicable billings  
14 on the earliest practical billing cycle.

15 While a procedure such as ESI is proposing must provide for a method  
16 of resolving disputes, the best way to avoid disputes is through a precisely  
17 documented formula rate procedure that leaves as few issues as possible  
18 open to multiple interpretations. However, no procedure can anticipate all  
19 circumstances that may arise. Consequently, there may be times when  
20 unanticipated issues will have to be resolved. TRANSCO will approach any  
21 such situations in good faith and will seek to resolve such issues in a manner  
22 consistent with the theory, philosophy and spirit of Schedule 7 to the OATT.

1 Q. ARE THERE ANY CIRCUMSTANCES UNDER WHICH THE PTPS RATES  
2 COULD BE REDETERMINED ON AN INTERIM BASIS BETWEEN THE  
3 NORMAL ANNUAL REDETERMINATIONS?

4 A. Yes, Paragraph 7 of Schedule 7 provides for an interim redetermination of the  
5 PTPS Rates in the event there is a change in the statutory state or federal  
6 corporate income tax rates. Such an interim redetermination would, however,  
7 be restricted to reflecting the incremental effects of such a tax rate change.  
8 All other cost data included in such an interim redetermination would be that  
9 utilized to determine the PTPS Rates then in effect. However, no such  
10 interim redetermination would be allowed until after redetermined PTPS  
11 Rates are filed in 2005 after the exact recovery period is completed.

12 Q. PLEASE DISCUSS ATTACHMENT 1 TO SCHEDULE 7.

13 A. Attachment 1 sets out the following PTPS Rate Formulas:

- 14 1. Long-term Firm Transmission Service Rate Formula
- 15 2. Monthly Firm Transmission Service Rate Formula
- 16 3. Weekly Firm Transmission Service Rate Formula
- 17 4. Daily On-Peak Firm Transmission Service Rate Formula
- 18 5. Daily Off-Peak Firm Transmission Service Rate Formula
- 19 6. Hourly On-Peak Non-firm Transmission Service Rate Formula
- 20 7. Hourly Off-Peak Non-firm Transmission Service Rate Formula
- 21 8. Monthly Transmission Facilities Fixed Charge Rate Formula

22 Except for the format of their presentation, and the inclusion of the Monthly  
23 Transmission Facilities Fixed Charge Rate Formula that applies to DFTS,  
24 these PTPS Rate Formulas are identical to their counterparts in the Entergy

1 OATT. Note again that all of the above PTPS Rate Formulas are based on  
2 the TSRR determined through the TSRR Formula set out in Attachment 2 for  
3 the redetermination filings to be made in 2003-2004, and in the TSRR  
4 Formula set out in Attachment 3 for the redetermination filings to be made in  
5 2005 and thereafter.

6 Q. PLEASE EXPLAIN THE OVER / UNDER RECOVERY ADJUSTMENT  
7 FORMULA THAT IS SET OUT IN FOOTNOTE 1 TO ATTACHMENT 1.

8 A. As Mr. Randall discusses in his Direct Testimony, ESI is proposing that  
9 TRANSCO exactly recover its revenue requirement during the first three  
10 years of its operation. In the context of the proposed formula rate structure,  
11 exact recovery is most logically achieved by 1) using projected costs for each  
12 of the first three Test Years (2002 – 2004) to develop the PTPS Rates that  
13 apply to the associated rate periods; 2) determining the difference between  
14 the revenue generated by the PTPS Rates based on projected costs and  
15 Transco's actual TSRR for each Test Year (i.e., the "Over / Under Recovery  
16 Amount" for that Test Year); and 3) including an "Over / Under Recovery  
17 Adjustment" in the PTPS Rates developed in the redetermination filing  
18 immediately following the end of each Test Year, which would be equal to the  
19 Over / Under Recovery Amount adjusted to include appropriate interest  
20 charges.

21 Footnote 1 to Attachment 1 defines how this projected ratesetting and  
22 Over / Under Recovery Adjustment process is to be applied. It first specifies  
23 the data that is to be used for each redetermination filing, the associated  
24 Rate Period and the TSRR Formula to be utilized (Attachment 2 or  
25 Attachment 3).

1           It then specifies that the TSRR values calculated in accordance with  
2           Attachment 1 for the Rate Periods commencing on May 1 of 2003, 2004 and  
3           2005 shall be adjusted to include an Over / Under Recovery Adjustment.  
4           Finally, Footnote 1 sets out the formula to be utilized to determine the Over /  
5           Under Recovery Adjustment for each Test Year.

6           Note that the 2005 redetermination filing, which would be based on  
7           actual data for the 2004 Test Year, would require the rates in effect at the  
8           end of 2004 to be recalculated based on 2004 data and excluding any Over /  
9           Under Recovery Adjustment effects. This step is necessary to make the  
10          transition from the exact recovery mode to the traditional formula rate mode  
11          because the rates that will actually be in effect at the end of 2004 will be  
12          those determined in the May 1, 2004 redetermination filing, which will be  
13          based on projected 2004 data.

14    Q.    PLEASE EXPLAIN THE INTEREST CALCULATION INCLUDED IN THE  
15           OVER / UNDER RECOVERY ADJUSTMENT FORMULA.

16    A.    This formula contemplates that the interest rate applicable to refunds /  
17           surcharges under Section 35.19(a) of the Code of Federal Regulations would  
18           be utilized to calculate the interest component of each Over / Under Recovery  
19           Adjustment. While there are a number of ways the interest component could  
20           be calculated, for simplicity, I have structured the calculation on the following  
21           assumptions:

- 22          1.    The Over / Under Recovery occurs at the middle of the Test Year;
- 23          2.    The Over / Under Recovery Adjustment is refunded or surcharged at  
24                the middle of the applicable rate period; and
- 25          3.    Monthly interest applies.

1           Based on these assumptions the formula reflects a monthly interest  
2           rate ( $ir/12$ ) applied for a period of 16 months. That period consists of six (6)  
3           months from the middle to the end of the Test Year; four (4) months from the  
4           end of the Test Year until the beginning of the Rate Period (May 1); and six  
5           (6) months to the middle of the Rate Period. This represents an average  
6           period of 16 months ( $6 + 4 + 6 = 16$ ) for the interest calculation.

7

8   Q.   PLEASE DISCUSS ATTACHMENT 2 TO SCHEDULE 7.

9   A.   Attachment 2 to Schedule 7 sets out the TSRR Formula applicable for the  
10       determination of the Initial Rates and for the redetermination filings to be  
11       made in 2003 and 2004. Attachment 2 consists of the following components:

- 12       1.   Development of Transmission Service Revenue   - Page 1  
13           Requirement  
14  
15       2.   Development of Rate Base                           - Page 2  
16  
17       3.   Development of Current Income Tax Expense       - Page 3  
18       4.   Development of Performance Adjusted           - Page 4  
          Cost of Capital

19           The above components, which are self-descriptive, constitute the core  
20       of the proposed formula rate structure. As I noted earlier, a tabular formula  
21       format has been utilized rather than the algebraic format utilized in the  
22       Entergy OATT.

23           These schedules present the development of the various cost  
24       components that are required to calculate TRANSCO's TSRR, as well as the  
25       TSRR calculation itself. The proposed PBR features cause this calculation to

1 be somewhat different than a "straight-up" revenue requirement calculation  
2 and require special treatment in the formula.

3 Atypical aspects of the TSRR Formula presented in Attachment 2 are:

- 4 1. A weighted average calculation of the Cost Rate for Common  
5 Equity to reflect the Facilities Investment Incentive feature (see  
6 Development of Performance Adjusted Cost of Capital on page  
7 4 of Attachment 2);
- 8 2. An adjustment to the cost of capital calculation to reflect the  
9 effect of the Performance Rating Adjustment developed in  
10 Attachment 4 to Appendix TR; and
- 11 3. The development of the Performance Rating Adjustment in  
12 Attachment 4.

13 Q. PLEASE EXPLAIN WHY, AS INDICATED IN FOOTNOTE 1, THE  
14 "TRANSMISSION SERVICE REVENUE REQUIREMENT" ON LINE 1, PAGE  
15 1 OF ATTACHMENT 2 TO SCHEDULE 7 ONLY INCLUDES THE REVENUE  
16 REQUIREMENT ASSOCIATED WITH LONG-TERM FIRM PTPS, NTS AND  
17 TREP SERVICE.

18 A. These services constitute TRANSCO's only reliable revenue sources over the  
19 long term. Further, the customers taking these services ultimately bear the  
20 burden of TRANSCO's costs to the extent TRANSCO does not receive  
21 revenue from the various other types of services it will offer.

22 Consequently, I believe the TSRR, which drives the Long-term Firm  
23 PTPS Rates, the Monthly Network Transmission Service Revenue  
24 Requirement ("MNTSRR") and the TREP Service Charges should reflect all  
25 of TRANSCO's costs as though TRANSCO had no other revenue sources.

1           However, recognizing that TRANSCO will offer numerous other services, e.g.,  
2           Non-firm PTPS, and, consequently, likely will receive some amount of  
3           revenue from these services, it is only fair that the rate burden on the Long-  
4           term Firm PTPS, NTS and TREP Service Customers be mitigated by any  
5           such revenue amounts that TRANSCO actually realizes from these services.

6           My proposal is to record all revenues from services other than Long-  
7           term Firm PTPS, NTS and TREP Service as "Other Operating Revenue" in  
8           FERC Account 456 (see Footnote 2 to page 1 of Attachment 2). Such  
9           revenues as may be booked to this account in any Test Year will be applied  
10          as a credit in determining the TSRR and, thus, the Long-term Firm PTPS  
11          Rates, the MNSTRR and the TREP Service Charges based on that Test  
12          Year.

13          I believe this is a reasonable manner in which to address the relatively  
14          small revenue expected from the non-basic services TRANSCO will offer.  
15          Notably, it avoids much more complicated, and potentially controversial,  
16          allocation approaches that would be difficult to utilize in a formula rate  
17          context.

18    Q.    WILL THE EXACT RECOVERY CONCEPT APPLY TO THE SHORT-TERM  
19    AND NON-FIRM PTPS RATES, THE REVENUE FROM WHICH IS  
20    INCLUDED IN "OTHER OPERATING REVENUES" ON LINE 2, PAGE 2 OF  
21    ATTACHMENT 2?

22    A.    No.    The Short-Term Firm and Non-Firm PTPS rates will true-up  
23    automatically because of the effect each year's Over / Under Recovery  
24    Adjustment will have on the TSRR in the following year, and, consequently,

1 on these charges in the following year. Thus, no special procedure is  
2 necessary with respect to these rates.

3 Q. PLEASE DISCUSS ATTACHMENT 3.

4 A. Attachment 3 reflects the TSRR Formula that becomes applicable with the  
5 redetermination filing to be made in 2005. That filing marks the conversion to  
6 the traditional formula rate approach, although it would include a true-up  
7 adjustment for the 2004 Test Year. At this point the remaining PBR features  
8 become effective, i.e., the Bandwidth and Earnings Sharing features. These  
9 features require a somewhat different approach to the determination of the  
10 TSRR itself, as indicated on Page 1 of Attachment 3. The other components  
11 of the TSRR Formula in Attachment 3 are identical to those of their  
12 counterparts in Attachment 2.

13 Q. PLEASE EXPLAIN WHY THE "REVENUE" AMOUNT IS TO BE AT AN  
14 ANNUALIZED LEVEL BASED ON THE RATE LEVELS IN EFFECT AT THE  
15 END OF THE TEST YEAR.

16 A. First, note that this feature would not be effective until the 2004 Test Year is  
17 utilized to redetermine rates in the 2005 redetermination filing. At that point,  
18 i.e., after completion of the exact recovery period, what is of interest is the  
19 sufficiency of the rates in effect at the time of the redetermination, i.e., the  
20 rate level in effect at the end of the Test Year.

21 The proper test of the sufficiency of that rate level is achieved by  
22 determining the revenue level that would result had that rate level been in  
23 effect for the entire Test Year. Without this treatment, the Test Year Revenue  
24 would consist of revenues from two, at least potentially, different Test Year

1 rate levels and would not provide a proper result in the context of the various  
2 PBR features.

3 Note further, as indicated in Footnote 1 to Page 2 of Attachment 3,  
4 that only Long-term Firm PTPS, NTS, and TREP Service revenue together  
5 with any revenue received under existing transmission contracts TRANSCO  
6 may assume from the Entergy Operating Companies would be included as  
7 "Revenue" in line 1, page 2 of Attachment 3.

8 Q. PLEASE DISCUSS THE PERFORMANCE RATING ADJUSTMENT AND ITS  
9 DEVELOPMENT IN MORE DETAIL.

10 A. The PRA is defined on Page 1 of Attachment 4 to Schedule 7. As I  
11 discussed earlier, if TRANSCO improves its performance on the two  
12 Performance Factors, the PRA allows TRANSCO to reflect a higher cost of  
13 capital in the determination of the TSRR than would otherwise apply.  
14 Conversely, if performance on the measures declines, the cost of capital  
15 TRANSCO can utilize for rate purposes will be lowered. This structure  
16 provides TRANSCO the financial incentive to maintain continuous  
17 improvement on these Performance Factors and provides a sensible balance  
18 between costs (hence, rate levels) and the quality of service provided.

19 The PRA would allow the cost of capital to be increased or decreased  
20 by up to 0.25% in any annual redetermination filing. The constant of 0.00025  
21 that is included in the PRA formula is a function of the range of values for the  
22 "Performance Ratings" ( $\pm 10$ ) associated with the two Performance Factors  
23 and the maximum value of the PRA ( $\pm 0.25\%$ ). The base cost of capital as  
24 adjusted by the PRA is referred to as the "Performance Adjusted Cost of  
25 Capital."

1           The Composite Rating ("CR") is the composite measure of the two  
2 Performance Ratings and would be calculated in accordance with the formula  
3 on Page 1 of Attachment 4 to Schedule 7. Note that due to the use of the  
4 non-linear cubic function ( $PRA = 0.00025 * CR^3$ ), as the CR increases, the  
5 benefit becomes increasingly significant. Symmetrically, if performance  
6 deteriorates, the penalty becomes increasingly significant. ESI's basis for  
7 proposing this model for the PRA is that small changes in performance  
8 should not provide the same proportionate effect as larger changes. Also,  
9 because performance improvements become increasingly difficult to achieve,  
10 the benefit should increase accordingly. Symmetrically, if performance  
11 should deteriorate, the penalty should also become increasingly severe.

12           Each of the Performance Ratings is determined by calculating its  
13 deviation from a baseline performance level. As Mr. Bartlett discusses, ESI  
14 proposes to use Entergy's average performance for the period of 1999  
15 through 2001 as the baseline for each of the Performance Ratings.

16           As an example, if TRANSCO achieved a rating of plus ten (+10) on  
17 both of the Performance Ratings, the value of the CR would be +10 and the  
18 PRA would be +0.25%, i.e.,  $[0.00025 * 10^3 = +0.25\%]$ . If the Performance  
19 Ratings were both minus ten (-10), the value of the CR would be -10 and the  
20 PRA would be a -0.25%, i.e.,  $[0.00025 * (-10)^3 = -0.25\%]$ . If the Performance  
21 Ratings averaged to zero, the CR would be zero and the PRA would be zero,  
22 i.e.,  $[0.00025 * 0^3 = 0]$ .

23 Q.   WHAT PERFORMANCE RATING ADJUSTMENT WILL BE INCLUDED IN  
24 THE INITIAL PTPS RATES?

1 A. Due to the difficulty of projecting the PRA, ESI proposes to include a zero  
2 value for the PRA in the initial PTPS Rates (and more specifically in the  
3 underlying TSRR calculation). The Redetermination Report filed in 2003 for  
4 the 2002 Test Year would compare TRANSCO's actual 2002 performance to  
5 the baseline and the result would be included in the PRA value reflected in  
6 the Over / Under Recovery Adjustment for 2002. To address this problem for  
7 the other years in the exact recovery period, I recommend utilizing the actual  
8 2002 PRA value as the projection for 2003 and the 2003 actual PRA value for  
9 the 2004 projection.

10 Q. PLEASE DISCUSS SCHEDULE 8.

11 A. Schedule 8 sets out the procedures through which NTS Customers are to be  
12 charged. As in Attachment H to the Energy OATT, it provides that NTS  
13 Customers are to be charged each month for their (12 CP) load ratio share of  
14 the Monthly Network Transmission Service Revenue Requirement.

15 In order to simplify Schedule 8 and avoid duplicative procedural  
16 language, Paragraph 3.C of Schedule 8 to the OATT provides that the  
17 MNTSRR for any month is to be equal to one-twelfth of the TSRR, in effect  
18 for that same month, as most recently determined under the redetermination  
19 procedures set out in Schedule 7. This approach eliminates the need to have  
20 redetermination language and a revenue requirement formula in Schedule 8,  
21 which would be identical to those in Schedule 7.

22 Q. PLEASE DISCUSS SCHEDULE 9.

23 A. Schedule 9 sets out the procedures through which Retail Electric Providers in  
24 Texas, i.e., TREP's, are to be charged for NTS. The structure and content of

1 Schedule 9 are materially identical to that of Attachment J to the Entergy  
2 OATT, which provides for network service to TREP's during the pilot  
3 deregulation program scheduled to be conducted by the Public Utility  
4 Commission of Texas between June 1, 2001 and December 31, 2001.

5 The charge structure for TREP Service under Schedule 9 is similar to  
6 the charge structure for NTS under Schedule 8. The primary distinction is  
7 that Schedule 9 provides for a two-stage allocation of the MNTSRR. In the  
8 first stage, the MNTSRR in effect for any month will be allocated to Entergy  
9 Gulf States Texas' load at system input level ("EGS-TX"). In this first stage  
10 allocation, the MNTSRR is allocated to the EGS-TX load on the basis of a  
11 rolling 12 CP load ratio share. This is identical to the manner in which the  
12 MNTSRR is allocated to NTS customers under Schedule 8. In this regard,  
13 Schedule 9 treats EGS-TX as though it were an NTS customer.

14 In the second stage allocation, the portion of the MNTSRR allocated to  
15 EGS-TX is then allocated to each TREP served during the month based on  
16 the ratio of the TREP's load, at the time of EGS-TX's 60-minute maximum  
17 load during the service month, as adjusted for losses, to EGS-TX's maximum  
18 60-minute load for that service month.

19 Q. WHY IS THIS TWO-STAGE ALLOCATION BEING PROPOSED FOR  
20 TREP'S?

21 A. The primary reason is to mitigate the potentially significant month-to-month  
22 customer shifts between TREP's that are likely to occur when deregulation is  
23 implemented in Texas in January 2002. In other words, customers may sign  
24 up for service from a TREP, but only remain with that TREP for a month or  
25 two. If served under Schedule 8, a TREP experiencing such month-to-month

1 customer migration would continue to get an allocation of cost based on the  
2 migrating customer's load for twelve months due to the 12 CP allocation  
3 utilized under Schedule 8.

4 Thus, without this two-stage allocation, TREP's could suffer significant  
5 economic adversity. This would not be good for the nascent deregulated  
6 utility business environment in Texas. Also, it could potentially complicate  
7 TRANSCO's business and possibly increase its costs.

8 Q. PLEASE DISCUSS THE PROPOSED PROCEDURE SET OUT IN  
9 SCHEDULE 10 FOR COMPENSATING NETWORK CUSTOMERS WHO  
10 OWN CERTAIN TYPES OF TRANSMISSION FACILITIES.

11 A. As Mr. Bartlett discusses in his Direct Testimony, certain of TRANSCO's NTS  
12 Customers may from time-to-time construct facilities that provide general  
13 support to TRANSCO's transmission system. In these circumstances, ESI  
14 proposes to compensate NTS customers with such "Eligible Facilities"  
15 through the procedure set out in Schedule 10. This procedure provides that  
16 the NTS Customer would be compensated each month through payment of  
17 an amount equal to the NTS Customer's gross investment in Eligible  
18 Facilities multiplied by the Monthly Transmission Facilities Fixed Charge Rate  
19 in effect for that month, as defined in Schedule 7.

20 Q. WHY WAS THIS APPROACH FOR COMPENSATION PROPOSED?

21 A. First, as I indicated earlier in my discussion of DFTS, it is impossible to know  
22 the actual revenue requirement associated with individual facilities. A further  
23 complication in this particular context is that the subject facilities will not be  
24 owned by TRANSCO.

1           While an argument could be made that compensation should be based  
2           on the costs of the owners of such Eligible Facilities, that approach would  
3           pose numerous administrative problems for both TRANSCO and the  
4           Customers owning such facilities. On balance and considering that the  
5           compensation for such facilities is not likely to be large compared to either  
6           TRANSCO's total costs, or that of the affected NTS Customers, TRANSCO  
7           believes that the simplified approach it has proposed represents a reasonable  
8           method by which to address this issue.

## 9           **V. IMPLEMENTATION OF RATE STRUCTURE**

10    Q.    PLEASE DISCUSS WHEN AND HOW TRANSCO'S PROPOSED RATE  
11           STRUCTURE WOULD BE IMPLEMENTED.

12    A.    ESI has requested that Appendix TR become effective for service rendered  
13           on and after January 1, 2002, which is the date that Entergy's Texas retail  
14           jurisdiction is expected to deregulate the generation market for customers  
15           under the jurisdiction of the Public Utility Commission of Texas. For  
16           simplicity, in the following discussion I will use the term "Rates" to refer,  
17           collectively, to all of the rate concepts set out in Schedules 7-9. Similarly, the  
18           term "Rate Formulas" shall be used to refer to all of the rate formulas set out  
19           in Schedules 7-9.

20           ESI proposes that initial Rates based on projected costs for the 2002  
21           Test Year be billed to Customers for service rendered from January 1, 2002  
22           through April 30, 2003. As provided for in Paragraph 6 of Schedule 7,  
23           TRANSCO would submit an informational filing to the Commission on or  
24           about May 1, 2003, setting out redetermined Rates based on TRANSCO's

1 projected 2003 costs together with an Over / Under Recovery Adjustment  
2 including interest, for the 2002 Test Year using the TSRR Formula set out in  
3 Attachment 2 to Schedule 7. Should TRANSCO not commence operation  
4 until after January 1, 2002, projected 2002 costs would still be used to  
5 determine the initial rates. However, for purposes of determining the Over /  
6 Under Recovery Adjustment for the partial 2002 Test Year, the actual costs  
7 for the period of actual operation would be utilized.

8 In accordance with the redetermination procedure set out in Paragraph  
9 6 of Schedule 7, the accuracy of the calculation of the redetermined Rates  
10 would be verified by the Parties during the following 90-day period and, if  
11 necessary, any necessary corrections would be made. The redetermined  
12 Rates based on TRANSCO's projected 2003 costs, would be billed beginning  
13 in the billing month of June 2003 for service in the immediately preceding  
14 month of May and would then remain in effect through the service month of  
15 April, 2004. This annual cycle would then be repeated each year thereafter  
16 through the filing made in May of 2005.

17 At that time, the exact recovery period (2002-2004) would have been  
18 completed and the TSRR Formula set out in Attachment 3 to Schedule 7  
19 would become effective. Note that the 2005 redetermination filing would be  
20 based on the 2004 Test Year for prospective rate purposes. As I noted  
21 earlier, it would also include an Over / Under Recovery Adjustment for 2004  
22 determined in accordance with the procedure set out in Attachment 2 (see  
23 Footnote 1 to Page 1 of Attachment 1). As I mentioned earlier, it will also be  
24 necessary to recalculate the rates that were in effect at the end of 2004 to  
25 reflect actual 2004 data, exclusive of any Over / Under Recovery Adjustment.

1

## VI. Initial Rates

2 Q. WHAT ARE THE INITIAL RATES THAT TRANSCO IS PROPOSING TO  
3 BECOME EFFECTIVE IN JANUARY 2002?

4 A. The initial Rates that would apply are presented in Exhibit RKG-2. As shown  
5 in Footnote 1 of Exhibit RKG-2 the initial Rates would be based on a  
6 Transmission System Revenue Requirement of \$484.9 million. Statement  
7 BK, which I will discuss later, presents the development of the initial Rates.

8 The projected 2002 costs that were utilized to develop the initial Rates  
9 set out in TRANSCO Exhibit RKG-2 were provided to me by ESI witness J.  
10 David Wright. The value of the "Transmission System Peak Demand"  
11 (variable TKW on Page 1 of Statement BK) was provided to me by Mr.  
12 Bartlett. The 13.00 percent cost rate for common equity that ESI is  
13 requesting for TRANSCO's equity investment in Base Facilities is discussed  
14 in the Direct Testimony of ESI witness Dr. Bruce H. Fairchild. The 16.00  
15 percent cost rate for common equity ESI is requesting for TRANSCO's equity  
16 investment in Incentive Facilities is discussed in Mr. Gallaher's Direct  
17 Testimony.

18

## VII. TRANSMISSION COST TRANSITION AGREEMENT

19 Q. PLEASE DISCUSS THE DEVELOPMENT OF THE MONTHLY PAYMENT  
20 AMOUNTS SET OUT IN TABLE 1 OF THE TRANSMISSION COST  
21 TRANSITION AGREEMENT ("AGREEMENT") THAT MR. GALLAHER  
22 DISCUSSES IN HIS DIRECT TESTIMONY.

- 1 A. The first step was to estimate the cost changes that will occur at each of the  
2 Operating Companies as a result of establishing TRANSCO. The approach  
3 that was selected to prepare these estimates had the following major  
4 features:
- 5 1. The analysis was based on the most recently available calendar year  
6 data (i.e., 1999);
  - 7 2. The analysis estimates each Operating Company's 1999 transmission  
8 revenue requirement and reflects all wholesale transmission loads  
9 served under Operating Company contracts;
  - 10 3. The analysis consolidated the Operating Companies transmission  
11 costs to estimate TRANSCO's total system revenue requirement  
12 based on 1999 costs. This calculation does not include any of the  
13 incremental costs associated with establishing TRANSCO's  
14 participation in the SPP Partnership RTO;
  - 15 4. The 11.00 percent rate of return on common equity included in the  
16 Entergy OATT was used for all revenue requirement calculations; and
  - 17 5. The Operating Companies' transmission service charges from  
18 TRANSCO was based on a 12 CP allocation of TRANSCO's revenue  
19 requirement, i.e., treating the Operating Companies as NTS  
20 customers.

21 The results of this analysis are summarized in Table 1 below.

1

Table 1

<b>Transmission Cost Transition Analysis Summary (\$000)</b>		
	<b>Increase</b>	<b>Decrease</b>
EAI	8,645	
EGS-LA		7,945
EGS-TX		7,747
ELI	18,940	
EMI		12,738
ENOI	2,066	
OATT	<u>187</u>	<u>          </u>
TOTAL	29,838	28,430

2           The analysis supporting these results is included in my workpapers  
3 submitted in Section IV of this filing.

4 Q.   WHY ARE THE TOTAL INCREASES IN TABLE 1 ABOVE NOT EQUAL TO  
5 THE TOTAL DECREASES FOR THE OPERATING COMPANIES?

6 A.   The increases do not equal the decreases because of several subtle  
7 calculational effects, including: 1) differences that arise from calculating the  
8 cost of capital on a system average basis rather than an operating company  
9 basis; 2) differences associated with calculating a systemwide average state  
10 income tax rate and 3) rounding effects.

1 Q. PLEASE DISCUSS HOW YOU DEVELOPED THE MONTHLY PAYMENT  
2 AMOUNTS SET OUT IN TABLE 1 OF THE AGREEMENT.

3 A. The development of the annual payment amounts corresponding to the  
4 Monthly Payment Amounts is shown in Exhibit RKG-3. The Monthly Payment  
5 Amounts in Table 1 of the Agreement are one-twelfth of the associated  
6 annual payment amounts shown in Exhibit RKG-3. For example, the EGS-LA  
7 Monthly Payment Amount of \$152,000 (rounded to the nearest thousand  
8 dollars) to EAI for 2002 is equal to the EGS-LA annual payment to EAI for  
9 2002 of \$1,823,000 divided by 12 ( $\$1,823,000 \div 12 = \$151,917$ ).

10 The first step in developing the annual payment amounts was to scale  
11 the decreases for EGS-LA, EGS-TX and EMI up to the level of the increases  
12 for EAI, ELI, ENOI and Entergy's OATT customers. This is done in Column D  
13 of Exhibit RKG-3 by multiplying the decreases shown in Column C by the  
14 ratio of the total increases to the total decreases ( $29,838 / 28,430$ ).

15 The next step was to reflect the three (3) year transition period Mr.  
16 Randall discusses in his Direct Testimony. This implies that EGS-LA, EGS-  
17 TX and EMI would return 75 percent of their decreases in 2002, 50 percent in  
18 2003, and 25 percent in 2004. This process terminates at the end of 2004  
19 and the payments would cease at that time. The total payment amounts for  
20 EGS-LA, EGS-TX and EMI for each year reflect these transition percentages.  
21 For example, in 2002 EGS-LA would pay 75 percent of its \$8.338 million  
22 scaled-up decrease (see Column D of Exhibit RKG-3) to the receiving  
23 Operating Companies, or \$6.254 million ( $0.75 * \$8.338 \text{ million} = \$6.254$   
24 million).

25 The final step was to determine the annual payments by EGS-LA,  
26 EGS-TX and EMI to each of the Operating Companies receiving the

1 payments. This was done by allocating the total to be paid by EGS-LA, EGS-  
2 TX and EMI in each year to EAI, ELI and ENOI based on the ratio of their  
3 estimated increases in Column B. For example, in 2002 EAI receives a total  
4 payment from EGS-LA of \$1.823 million ( $\$6.254 \text{ million} * 8,645 / (8,645 +$   
5  $18,940 + 2,066) = \$1.823 \text{ million}$ ).

6 The resulting annual payment amounts shown in Columns E, F, G, I, J,  
7 K, M, N and O of Exhibit RKG-3 were then divided by twelve (12) to convert  
8 them to the Monthly Payment Amounts set out in Table 1 of the TCT  
9 Agreement.

10 Q. DO YOU BELIEVE THE PAYMENT SCHEDULE YOU HAVE JUST  
11 DISCUSSED REPRESENTS A FAIR SOLUTION TO THE PROBLEM  
12 ASSOCIATED WITH THE COST SHIFTS THAT WILL OCCUR AS A  
13 RESULT OF ESTABLISHING TRANSCO AND THE SPP PARTNERSHIP  
14 RTO STRUCTURE?

15 A. Yes, I do. Given the relatively small magnitude of the estimated cost shifts  
16 relative to the Operating Companies' total revenue requirements, I believe the  
17 analytical approach taken is reasonable and that a three-year transition  
18 period provides appropriate mitigation.

19 **VIII. DISCUSSION OF FILING STATEMENTS**

20 Q. PLEASE DESCRIBE THE FILING STATEMENTS WHICH YOU ARE  
21 SPONSORING.

22 A. The following exhibits are the filing statements which I sponsor and which are  
23 contained in Section I of the filing package:

1	<u>Statement</u>	<u>Description</u>
2	BB	Allocation Demand and Capability Data
3	BD	Allocation Energy and Supporting Data
4	BE	Specific Assignment Data
5	BG	Revenue Data to Reflect Changed Rates
6	BH	Revenue Data to Reflect Present Rates
7	BK	Cost of Service
8	BL	Rate Design

9 A brief discussion of each of these statements follows:

- 10 Statement BB - Not Applicable to TRANSCO
- 11 Statement BD - Not Applicable to TRANSCO
- 12 Statement BE - TRANSCO is not projected to have costs which are  
13 specifically assigned as of the end of the 2002 Test Year.
- 14 Statement BG - Due to the circumstances in this filing, Statement BG  
15 includes the currently effective rates under the Entergy  
16 OATT.
- 17
- 18 Statement BH - Consistent with the approach in Statement BG,  
19 Statement BH includes the initial rates under the OATT  
20 based on projected 2002 costs.
- 21 Statement BK - Statement BK sets out the results of applying the  
22 proposed Rate Formulas to TRANSCO's projected 2002  
23 costs.

24 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

25 A. Yes, it does.



**EDUCATIONAL AND PROFESSIONAL BACKGROUND OF  
RODNEY K. GILBREATH**

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND.

A. I hold Bachelor and Master degrees in Industrial Engineering from the University of Arkansas at Fayetteville. In addition, I have completed additional graduate work in Industrial Engineering at the Georgia Institute of Technology.

Q. PLEASE DESCRIBE YOUR BUSINESS EXPERIENCE.

A. I worked for Texas Instruments, Inc. from 1968 to 1971 in the positions of Industrial Engineer, Capital Investment Coordinator, and Financial Analyst. My responsibilities as Capital Investment Coordinator included developing procedures for analyzing capital investments, reviewing investment analyses, and controlling capital expenditures. As a Financial Analyst, I was responsible for developing operating budgets and forecasts and providing overall financial support to a department manager.

I attended graduate school in 1971-1972 and was then self-employed until I went to work for Entergy Arkansas, Inc. ("Entergy Arkansas"), formerly Arkansas Power & Light Company, in 1975.

At Entergy Arkansas, I held the positions of Statistician and Corporate Planner in the Corporate Planning Department. As Statistician and Corporate Planner, my assignments included development of Entergy Arkansas' Financial Planning Model, coordination of the development of Entergy Arkansas' Energy and Demand Forecasting Model, and the preparation of numerous cost benefit studies related to various aspects of the company's business.

In 1978 I was promoted to the position of Manager of Revenue Requirements in the Rates and Research Department. As the Manager of Revenue Requirements I was responsible for managing the preparation of Entergy Arkansas' cost-of-service studies. I was also involved in the development of Entergy Arkansas' exact recovery rate riders, the development of formula rates that apply to several of Entergy Arkansas' wholesale customers and a wide range of special studies and analyses related to regulatory and other issues.

In April 1991, I accepted a position with Entergy Services, Inc. as Director of State Rate and Regulatory Analysis. In that position, I had responsibility for coordinating activity on regulatory issues for the Entergy System as well as broad administrative responsibilities for the Entergy Regulatory Affairs Department that was established at the same time.

In January 1993, I was named to the position of Director, Regulatory Support for Entergy. In that position, I was responsible for the preparation of cost-of-service studies for Entergy's five operating companies; development of formula rates and certain special purpose rates; and the administration of the formula rate plans of the Entergy Mississippi, Inc. (formerly Mississippi Power & Light Company) and Entergy Louisiana, Inc. (formerly Louisiana Power & Light Company). In addition, my department was responsible for providing broad analytical support to all parts of the company in the area of revenue requirements.

In March 1999, having decided to retire in July 2000, I relinquished my responsibilities as Director, Regulatory Support to my successor under a succession plan. I was named Director, Transitional Regulatory

Support. My duties in that role included the training and education of my successor to the Director, Regulatory Support position, fulfilling my role as a witness in all outstanding proceedings, continuing to provide technical support to the Regulatory Support Department and working on transition to competition issues.

Since my retirement from Entergy at the end of July 2000, I have been employed by Entergy Services, Inc. as a consultant to provide support for the filings before the FERC and Entergy's other regulatory agencies related to the creation of an independent transmission service company.

Q. HAVE YOU PROVIDED EXPERT TESTIMONY PREVIOUSLY?

A. Yes. I have provided testimony as an expert witness on cost-of-service, revenue requirement, and rate issues in the following dockets:

Arkansas Public Service Commission

Docket No. U-3108  
Docket No. 81-143-U  
Docket No. 81-144-U  
Docket No. 81-354-U  
Docket No. 82-101-U  
Docket No. 82-314-U  
Docket No. 82-315-U  
Docket No. 83-206-U  
Docket No. 84-249-U  
Docket No. 84-038-U  
Docket No. 85-299-U  
Docket No. 89-128-U  
Docket No. 92-160-U  
Docket No. 96-360-U

Council of the City of New Orleans

Docket No. CD-85-1  
Docket No. UD-92-2A

Docket No. UD-92-2B

Docket No. UD-97-1

Federal Energy Regulatory Commission

Docket No. ER79-339

Docket No. ER80-373

Docket No. ER91-569

Docket No. ER95-112

Docket No. ER95-1042

Docket No. ER95-711

Mississippi Public Service Commission

Docket No. 92-UA-0487

Docket No. 93-UA-0301

Docket No. 94-UN-0228

Docket No. 97-UN-103

Louisiana Public Service Commission

Docket No. U-20178

Docket No. U-20925

Docket No. U-22092

Docket No. U-22138

Docket No. U-23358

Public Utility Commission of Texas

Docket No. 15102

Docket No. 15489

Missouri Public Service Commission

Docket No. ER-81-364

Docket No. ER-83-206

Docket No. ER-85-20

**Initial Rates**

Description	Rate
<b><u>Ancillary Services</u></b>	
1) Scheduling, System Control and Dispatch Service	\$0.0001/kwh
2) Reactive Supply and Voltage Control from Generation Sources Service	NA (1)
3) Regulation and Frequency Response Service	NA (1)
4) Energy Imbalance Service	NA (1)
5) Operating Reserve – Spinning Reserve Service	NA (1)
6) Operating Reserve – Supplemental Reserve Service	NA (1)
<b><u>Point-to-Point Service</u></b>	
Long-term Firm Transmission Service Rate	\$1.47/kw-month
Monthly Firm Transmission Service Rate	\$1.54/kw-month
Weekly Firm Transmission Service Rate	\$0.36/kw-week
Daily On-Peak Firm Transmission Service Rate	\$0.071/kw-day
Daily Off-Peak Firm Transmission Service Rate	\$0.051/kw-day
Hourly On-peak Non-firm Transmission Service Rate	\$0.00444/kwh
Hourly Off-peak Non-firm Transmission Service Rate	\$0.00211/kwh
<b><u>Monthly Transmission Facilities Fixed Charge Rate</u></b>	0.01288
<b><u>Network Service</u></b>	
Monthly Network Transmission Service Revenue Requirement	\$40,406,000 (2)
<b><u>Texas Retail Electric Provider Service</u></b>	NA (3)

Note:

- 1) Rates for services under Schedules 2-6 are pending further development. See Direct Testimony by George R. Bartlett for further discussion.
- 2) Based on the Transmission System Revenue Requirement of \$484.9 million developed in accordance with Attachment 2 to Schedule 7 of Appendix TR and set out in Statement BK.
- 3) Texas Retail Electric Provider charges are based on the Monthly Network Transmission Service Revenue Requirement.

**TRANSMISSION TRANSITION COST ANALYSIS**  
(\$000)

(A)	(B) TRANSITION COST CHANGES		(C) DECREASE	(D) SCALED COST DECREASE (1)	(E) PAYMENT SCHEDULE(2)												(P)		
					(F) 2002		(G) 2003		(H) 2004		(I) 2005		(J) 2006		(K) 2007			(L) 2008	
					(E) INCREASE	(F) DECREASE	(G) EGS-LA	(H) EGS-TX	(I) EGS-LA	(J) EGS-TX	(K) EGS-LA	(L) EGS-TX	(M) EGS-LA	(N) EGS-TX	(O) EGS-LA	(P) EGS-TX		(Q) EGS-LA	(R) EGS-TX
EAI	8,645				1,823	1,778	2,923	6,525	1,216	1,185	1,949	4,350	608	593	974	2,175			
EGS-LA		7,945	8,338																
EGS-TX		7,747	8,131																
ELI	18,940				3,995	3,895	6,405	14,295	2,863	2,597	4,270	9,530	1,332	1,298	2,135	4,765			
EMI		12,738	13,369																
ENOI	2,066				436	425	699	1,559	291	283	466	1,040	145	142	233	520			
OATT	187				N/A	N/A	N/A	-	N/A	N/A	N/A	-	N/A	N/A	N/A	-			
TOTAL	29,838	28,430	29,838		6,254	6,098	10,027	22,379	4,169	4,065	6,684	14,919	2,085	2,033	3,342	7,460			

Notes:

- 1) The cost decreases are scaled up proportionately so that the total cost decreases are equal to the total cost increases.
- 2) The payment schedule has been developed as follows:
  - a) EGS-LA, EGS-TX and EMI each pay EAI, ELI and ENOI 75% of their respective scaled decrease amounts in 2002, 50% in 2003 and 25% in 2004.
  - b) The total payment to each receiving company (EAI, ELI and ENOI) is the sum of the amounts paid by EGS-LA, EGS-TX and EMI.