

**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
MICHAEL M. SCHNITZER
ON BEHALF OF
ENTERGY SERVICES, INC.**

December 29, 2000

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I. QUALIFICATIONS AND PURPOSE OF TESTIMONY

Q. PLEASE STATE YOUR NAME, POSITION, AND BUSINESS ADDRESS.

A. My name is Michael M. Schnitzer. I am a Director of the NorthBridge Group, 55 Old Bedford Road, Lincoln, Massachusetts 01773. The NorthBridge Group is an economic and strategic consulting firm specializing in the electric and natural gas industries.

Q. ON WHOSE BEHALF ARE YOU TESTIFYING?

A. I am testifying on behalf of Entergy Services Inc. (“Entergy,” “ESI,” or “the Company”).

Q. PLEASE BRIEFLY DESCRIBE YOUR EDUCATIONAL AND BUSINESS BACKGROUND.

A. I received a Master of Science degree in management from the Sloan School of Management, Massachusetts Institute of Technology, in 1979. My concentration was in finance. I received a Bachelor of Arts degree in chemistry, with honors, from Harvard College in 1975.

In 1992, I co-founded The NorthBridge Group. Before that, I was a Managing Director of Putnam, Hayes & Bartlett, which I joined in 1979. At NorthBridge and at Putnam, Hayes & Bartlett, I have consulted for private sector clients in the electricity, natural gas, and steel industries, and for several public and nonprofit agencies. My electricity work has recently focussed on industry restructuring issues. Further details of my

1 professional and educational background are set forth in MMS-1.

2

3 Q. PLEASE LIST THE REGULATORY COMMISSIONS BEFORE WHICH
4 YOU HAVE TESTIFIED.

5 A. I have provided testimony or affidavits on a variety of matters before this
6 Commission and regulatory commissions in Arkansas, Delaware, Indiana,
7 Maine, Maryland, Massachusetts, New Hampshire, New Mexico, New
8 York, Ohio, Pennsylvania, Rhode Island, Texas, Vermont and Wisconsin.

9 I provided testimony in the prior phase of this Docket, Entergy's October
10 16, 2000 filing to establish a Transco as part of a Partnership RTO
11 proposal with SPP.

12 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

13 A. The purpose of my testimony is to describe the proposed Transco policy
14 for undertaking new transmission investment, and in particular to explain
15 the model for participant-funded expansion and regional market
16 expansion that Transco will use in conjunction with the congestion
17 management model that is currently being developed at the Southwest
18 Power Pool (SPP). I also explain the incentives that Entergy proposes for
19 the Transco's expansion activities. The remainder of my testimony is
20 organized in three sections: Section II describes the proposed policy with
21 respect to new transmission investment; Section III discusses one
22 category of new investment, so-called participant-funded expansion of the
23 transmission system; and Section IV describes the Company's proposals

1 for Transco incentives associated with transmission expansion.

2

3

II. TRANSCO INVESTMENT POLICY

4 Q. PLEASE DESCRIBE TRANSCO'S INVESTMENT POLICY.

5 A. Transco's proposed investment policy encompasses three broad
6 categories of investments: "Base Case" investments, "Participant Funded"
7 investments, and "Regional Market Expansion" investments

8

9 Q. WHAT ARE BASE CASE INVESTMENTS?

10 A. Base Case investments are projects that are needed to maintain the
11 current transfer capability consistent with applicable NERC operating
12 standards. Mr. Bartlett described four investment categories in his
13 October 16th testimony: Mandatory, Reliability, Infrastructure and
14 Customer-initiated. Base Case investments would include all investment
15 in the Mandatory and Infrastructure categories, as well as most
16 investments in the Reliability category.

17

18 In general, Base Case investments do not increase the transfer capability
19 of the system; they do not increase TTC. In a congestion management
20 model with tradable transmission rights, these investments would not
21 create additional transmission rights.

22

23 These investments will be funded by Transco and added to the
Transco ratebase for ratemaking purposes. They will be included in the

1 plan that Transco submits periodically to the SPP RTO regional planning
2 process. Under the MOU between Entergy and SPP, because Base Case
3 investments are rate-funded, they will be subject to RTO planning review
4 on appropriateness as well as reliability grounds.

5

6 Q. WHAT ARE PARTICIPANT FUNDED INVESTMENTS?

7 A. These are investments that increase transfer capability that are paid for
8 by market participants. In return, the funding market participants receive
9 the transmission rights created by the investment. The precise nature of
10 the transmission rights that will be made available under the new SPP
11 Partnership RTO congestion management model is yet to be determined
12 – whether they are Flowgate Rights (FGRs) or Financial Transmission
13 Rights (FTRs) or some combination of both. For that reason I simply refer
14 to them as “transmission rights” or “tradable transmission rights”.
15 Whether they are FGRs or FTRs, they are designed to be congestion
16 hedges – generally speaking, participants holding such rights are not
17 required to pay for some or all congestion charges when scheduling
18 transmission service.

19 In my testimony submitted with Entergy’s October 16 filing, I
20 referred to these investments as market-funded investments, because
21 they would be funded by market participants rather than through Transco
22 rates. However, that nomenclature created some confusion, because it
23 gave the impression that Transco would be seeking to charge market-

1 based rates for expansion, or that it was proposing a form of merchant
2 transmission expansion, neither of which was the case. To avoid such
3 confusion I now call this category participant funded investments.

4 Participation in these types of transmission investments will be
5 offered to market participants by Transco. The investments will be
6 submitted to the SPP Partnership RTO regional planning process;
7 however, because the costs of these investments will not be included in
8 Transco's ratebase, they will be subject to RTO review on reliability
9 grounds only.

10 I discuss participant funded investments in more depth in the next
11 section of my testimony.

12

13 Q. WHAT ARE REGIONAL MARKET EXPANSION INVESTMENTS?

14 A. As I explained in my October 16th testimony, not all grid expansion can
15 be funded through the participant-funding process. There may be large
16 investments that reduce congestion to the point that the additional
17 transmission rights that are created may have limited value as congestion
18 hedges. That does not mean that such an investment is necessarily
19 uneconomic or is not in the public interest. It may nonetheless be a good
20 investment, if it will produce a sufficient reduction in the delivered price of
21 power for load in the SPP Partnership RTO and/or neighboring regions.

22 To the extent that Transco elects to undertake such a project and
23 place the costs for such facilities in its ratebase, it will submit the project

1 to the SPP Partnership RTO planning process for appropriateness and
2 reliability review. It will also include an explanation of why Transco does
3 not believe that participant funding of the project is feasible.

4

5 Q. SUPPOSE THAT A TRANSMISSION PROJECT WOULD HAVE
6 RELIABILITY BENEFITS AS WELL AS CREATION OF ADDITIONAL
7 TRANSFER CAPABILITY. IN WHAT CATEGORY WILL TRANSCO
8 PLACE IT?

9 A. It is reasonable to expect that some projects could both increase
10 throughput capability and enhance reliability. In such cases, Transco will
11 apportion the investment between the Base Case category and the
12 applicable economic category.

13

14 Q. WHY WOULD THERE BE A NEED TO APPORTION INVESTMENTS
15 BETWEEN THE BASE CASE AND REGIONAL MARKET EXPANSION
16 CATEGORIES, IF BOTH ARE TO BE RATE-FUNDED AND BOTH ARE
17 SUBJECT TO AN APPROPRIATENESS REVIEW AT THE RTO LEVEL?

18 A. The difference lies in the incentive treatment that Transco will seek for
19 economic expansion projects but not for reliability-related projects. In
20 Section IV of this testimony I explain the incentives that are being
21 proposed, and the policy rationale for them.

22

23

SECTION III: PARTICIPANT FUNDED EXPANSION

1 Q. PLEASE EXPLAIN THE IMPORTANCE OF PROVIDING FOR
2 ECONOMIC EXPANSION OF THE TRANSMISSION GRID.

3 A. The existing transmission system in Entergy's area was designed on an
4 integrated basis to serve native load customers from utility-owned
5 generation. With the advent of merchant generation and retail access,
6 new patterns of transmission usage will likely result. In particular, given
7 the high level of merchant generation development in the Entergy region -
8 - over 8000 MW in operation or under construction – significant changes
9 in transmission usage, including an interest in higher levels of export (i.e.
10 to neighboring control areas or RTOs), seem likely. Network customers
11 (including current native load, whether it remains “bundled” or moves to
12 open access) may also seek to change suppliers. Entergy fully expects
13 that grid upgrades will be required to support these wholesale and retail
14 market activities. It is therefore important that the market design
15 facilitates the identification and funding of these expansion projects when
16 they are economic.

17

18 Q. HOW DOES THE CONGESTION MANAGEMENT MODEL UNDER
19 DEVELOPMENT BY THE SPP PARTNERSHIP RTO SUPPORT
20 ECONOMIC EXPANSION OF THE TRANSMISSION SYSTEM?

21 A. In two ways. First, locational energy prices and prices for transmission
22 rights provide an economic and transparent signal as to the magnitude
23 and frequency of transmission congestion, and thus the value of

1 eliminating or reducing that congestion through grid expansion. In short,
2 these price signals indicate where the congestion problems are, and how
3 much it might be worth to relieve or reduce them. Second, this model
4 creates a type of property right in the form of FGRs and/or FTRs that
5 enables a new way to fund transmission expansion -- participant funding -
6 - in addition to the more traditional rate funding option (i.e putting new
7 investments in transmission rate base.)

8

9 Q. PLEASE EXPLAIN PARTICIPANT FUNDING OF EXPANSION.

10 A. The market structure under development will create tradable property
11 rights in transmission. The number of rights that can be in existence at
12 any one time is limited by the transfer capability of the grid, because the
13 issuer will not offer more rights than it is feasible to accommodate
14 simultaneously. Transmission expansions that increase transfer
15 capability, however, will permit additional transmission rights to be
16 created. The nature of these rights creates an opportunity for participant
17 funded expansion

18 The basic concept behind participant funded expansion is that
19 parties who voluntarily choose to fund grid expansions receive, in return,
20 all the long-term rights created by the expansion. The transmission
21 provider determines the mix and quantity of incremental rights that are
22 created by the investment, considering all the network effects of the
23 expansion. Thus, under participant funding, the decision to undertake a

1 particular expansion of the transmission network is subject to a market
2 test: does the value of the incremental transmission rights justify the
3 required investment? The question is answered by market participants
4 investing (or choosing not to invest) their own capital.

5

6 Q. IS PARTICIPANT FUNDING OF TRANSMISSION EXPANSION
7 PREFERABLE TO THE TRADITIONAL PRACTICE OF RATE FUNDED
8 EXPANSION?

9 A. It has certain advantages compared to placing new investment in
10 ratebase.

11

12 Q. PLEASE EXPLAIN.

13 A. The most important reason for preferring participant funded transmission
14 expansion arises out of the interaction between transmission expansion
15 and generation value. In many cases transmission expansion can effect
16 the value of particular generators, raising the value on one side of a
17 constraint, and lowering the generation values on the other side of the
18 constraint. Given this interaction, it is important that expansion policies
19 support, rather than distort, competition in the generation market.

20

21 Q. COULD YOU GIVE ME AN EXAMPLE OF THIS INTERACTION
22 BETWEEN TRANSMISSION EXPANSION AND GENERATION VALUE?

23 A. Yes. Consider a situation where transmission constraints create an area

1 with higher generation prices surrounded by areas with lower prices, but
2 no way to move more power into the high price “zone”. One possible
3 response would be for new generation to be developed in the high price
4 zone, and compete with the existing generators in that zone. Another
5 option would be a transmission expansion investment to increase transfer
6 capability into the high price zone. It is clear that in this situation
7 transmission expansion is in direct competition with potential new
8 generation in the high price zone. It is also clear that transmission
9 expansion could affect the value of generation in both areas.
10 Transmission expansion could reduce prices, and hence the value of
11 generation in the high price area. It could also increase prices and
12 generation value in the low price area. What the right answer would be –
13 build new generation, build new transmission, build both, or build neither
14 – is an empirical question that depends on future market prices and the
15 costs associated with new generation and new transmission facilities.

16

17 Q. WHAT ARE THE IMPLICATIONS OF THIS INTERACTION FOR
18 TRANSMISSION EXPANSION FUNDING POLICY?

19 A. There is nothing inherently wrong or bad about this interaction between
20 transmission expansion and generation value – it is a fact. But it does
21 mean that transmission expansion policy can have an effect on the
22 efficiency of wholesale power markets. Therefore, investors in
23 competitive generation – existing and new – have a legitimate interest in

1 transmission expansion policy. Policies which result in “too much”
2 transmission expansion (expansion that is not economic) will tend to
3 “devalue” generator location as a key development factor. Cheaper
4 solutions -- less transmission with generation closer to load or within
5 constrained regions -- might not be pursued and more expensive
6 alternatives (more remote generation plus transmission) might result
7 instead. On the other hand, policies that result in “too little” transmission
8 expansion would also result in higher total costs. Under-investment in
9 transmission could prevent more remote generation from generating at
10 higher levels in favor of less economic local generation.

11 Given the importance of securing the “right” level of transmission
12 expansion to the efficiency of competitive bulk power markets, the
13 question is what expansion policy is most likely to do that. Participant
14 funded expansion, where possible, is more likely to produce the “right”
15 level of transmission investment. The economic considerations
16 associated with transmission expansion are similar to those associated
17 with investment in new generation. Both involve an assessment of future
18 market prices for power compared against the cost of new investment
19 (transmission involves the consideration of the difference between future
20 market prices at two locations). With respect to generation, FERC
21 policies in most instances favor having these key judgments made by
22 market participants, risking their own capital. For the very same reasons,
23 participant funded transmission expansion – where market participants

1 make the key judgments and risk their own capital – is often superior to
2 rate funded transmission expansion.

3 As importantly, participant funded expansion will be perceived by
4 most generators to be fair, and not biased against generation. Participant
5 funded transmission expansion places those who fund expansion on an
6 equivalent footing with those who invest in competitive generation – their
7 investment may perform well or poorly depending on market prices – and
8 neither receives any subsidy outside of the market. Rate funded
9 expansion places transmission investors on a different footing than
10 competitive generation investors. Transmission investors earn a return
11 on their investment through the license plate transmission rate, but the
12 competitive generation investor is still dependent on the market. Faced
13 with the prospect of having the value of their generation investment
14 affected by transmission expansion, most generation investors would
15 prefer that transmission expansion be subject to the same market
16 discipline as competitive generation. Participant funded transmission
17 expansion does just that, and hence is more consistent and compatible
18 with competitive wholesale markets.

19

20 Q. IN YOUR PREVIOUS ANSWER, YOU SAID THAT MOST GENERATION
21 INVESTORS WOULD PREFER PARTICIPANT FUNDED EXPANSION.
22 WHY MIGHT SOME GENERATORS PREFER RATE FUNDED
23 EXPANSION?

1 A. Generators who are located in an area with low prices, or propose to
2 locate in an area with low prices may be proponents of rate funded
3 expansion.

4
5 Q. WHY IS THAT?

6 A. Because, as discussed above, such an expansion could increase the
7 market price at their location, and increase the value of their generation
8 investment – all at no cost to them. This only serves to underscore the
9 advantages of participant funded expansion in promoting efficient
10 competitive wholesale markets. A generator proposing to locate in a low
11 price area should do so if that is an economic location – that is, the
12 generator can make money at the low prices. Alternatively, the generator
13 should locate there if it is economic to do so, taking into account the cost
14 of the transmission expansion, as well. But a generator should not locate
15 in a low price area if it can only make money when someone else funds a
16 transmission investment to be recovered through higher license plate
17 rates. And a policy that encourages such behavior will not result in
18 economic generation siting decisions or in economic levels of
19 transmission expansion. As this discussion illustrates, participant funded
20 transmission expansion is more consistent with competitive wholesale
21 markets than rate funded expansion.

22 Q. BUT WHY SHOULDN'T A TRANSMISSION PROVIDER PUT AN
23 INVESTMENT IN RATEBASE IF IT BENEFITS ALL LOAD?

1 A. First, some investments will not benefit load in Transco's region very
2 much, if at all. These are investments intended to increase export
3 capability from Transco to other regions. Participant funding for these
4 investments is a form of direct assignment to the transmission customers
5 that will benefit from them as discussed in the above example, with the
6 proviso that under the proposed approach these transmission customers
7 will continue to pay their share of embedded costs, as well.

8 Second, investments that benefit load in the Transco region are
9 unlikely to benefit all load proportionately. And any such investments to
10 lower the delivered price of energy to load in Transco's region are likely to
11 advantage one set of generators while at the same time disadvantaging
12 other generators, for the reasons I described above. In sum, it is unlikely
13 that there will be an identity between the ratepayers who pay for a rolled-
14 in investment and the parties that benefit. Participant funded expansion
15 provides a better matching of costs and benefits.

16 For these reasons, participant funding, where feasible, is the
17 preferable route for economic expansion investments. Where such
18 investments are not susceptible to participant funding, Transco can
19 proceed on a rate funded basis after suitable regional review.

20

21 Q. WHAT ABOUT THE CONCERN THAT RELIANCE ON PARTICIPANT
22 FUNDED EXPANSION BENEFITS INCUMBENT GENERATORS AT THE
23 EXPENSE OF NEW GENERATORS?

1 A. The basis of this criticism, as I understand it, is that incumbent generators
2 did not have to pay to upgrade the transmission system, but that new
3 generators do have to pay. As a factual matter, this premise is incorrect.
4 Under Entergy's preferred approach to congestion management,
5 described in my October 16 testimony, new generators are not obligated
6 to pay anything other than their direct interconnection costs. This entitles
7 them to schedule bilateral transactions and pay congestion charges, if
8 any, from the point of injection to the point of withdrawal, or to bid into the
9 LMP exchange and be paid their locational price for scheduled output. At
10 their option, they may purchase transmission rights in the secondary
11 market to hedge congestion costs, or fund upgrades to create new rights
12 – but they are obliged to do neither. Incumbent generators will be in a
13 similar position and have the same options. There is no preferential
14 treatment about which to complain.

15 An alternative framing of this criticism is that while new generators
16 must purchase transmission rights if they want to hedge congestion,
17 certain incumbent generators – those owned by vertically integrated
18 utilities – do not have to purchase rights to hedge congestion. These
19 generators, it is argued, have preferential access to rights without having
20 to pay for them because the distribution company will be allocated rights
21 from the incumbent generators to distribution company load. This criticism
22 is also without merit. The premise of this argument, that incumbent
23 generators get valuable transmission rights for free, is not correct.

1 Under Entergy's preferred approach for distribution of rights,
2 described in my October 16 testimony, the benefits of transmission rights
3 – whether FTRs or some other form of transmission rights that emerges
4 from the SPP congestion management development effort -- accrue to
5 those who have historically paid for firm transmission service – primarily
6 load. Under the Company's preferred approach, this is initially achieved
7 through a combination of allocating FTRs to distribution companies and a
8 crediting of FTR auction proceeds to the appropriate license plate
9 revenue requirement. But the fact that distribution companies may be
10 allocated FTRs to hedge congestion associated with serving load does
11 not confer any subsidy or benefit on incumbent generation. Indeed, the
12 benefits associated with these FTRs accrue to load, not to generation.
13 And these benefits will be realized regardless of whether the energy to
14 serve the load is purchased from affiliated generation or non-affiliated
15 generation. Again, there is no way that participant funding of network
16 expansion places new generators at a disadvantage to incumbent
17 generators.

18

19 Q. YOU HAVE STATED YOUR PREFERENCE FOR PARTICIPANT
20 FUNDED EXPANSION "WHERE FEASIBLE" OR "WHERE POSSIBLE".
21 DOES THAT MEAN THAT THERE COULD BE CIRCUMSTANCES
22 WHERE PARTICIPANT FUNDING IS NOT FEASIBLE?

23 A. Yes. As I discussed earlier, certain transmission expansions may

1 eliminate or alleviate constraints such that the transmission rights
2 created have little or no value. The expansion may still be economic and
3 in the public interest, yet not susceptible to participant funding because
4 the benefits accrue so broadly to load and/or generators that no
5 reasonable sized group of market participants could realize sufficient
6 benefits to justify the investment. In such circumstances, the investments
7 could be undertaken on a rate funded basis.

8 Regulatory uncertainty could be a second potential impediment to
9 participant funded expansion. If investors do not have sufficient
10 confidence in the longevity of the transmission right or the stability of the
11 underlying congestion management system, or are concerned about
12 being devalued by subsequent rate funded expansion, then they may be
13 reluctant to make investments on this basis.

14

15 Q. COULD YOU PLEASE BRIEFLY DESCRIBE HOW THE PARTICIPANT
16 FUNDING PROCESS WOULD WORK?

17 A. Transco staff will monitor market conditions such as the magnitude and
18 frequency of congestion, requests for transmission service, and
19 secondary market prices for transmission rights. Based on this
20 information, supplemented by other planning considerations, Transco
21 staff will develop a number of expansion projects that might economically
22 increase transmission capability, and identify the incremental rights, and
23 well as the costs associated with each potential project. These projects

1 would then be made available to any interested market participant,
2 probably through something similar to the gas pipeline “open season”
3 process. If there is sufficient interest, funding agreements will be
4 negotiated between Transco and the funding parties, which will be filed
5 with the FERC. If FERC approves, Transco will design, permit and
6 construct the facilities, be paid pursuant to the funding agreements, and
7 issue the transmission rights to the funding parties when the project
8 becomes operational. If a particular project is oversubscribed through the
9 open season process, and cannot be economically expanded to
10 accommodate all interested participants, then Transco may auction
11 participation in the project, and choose the highest bidders. The rest of
12 the process would be as described above, except that Transco would not
13 keep all the revenues received from the successful bidders – revenues in
14 excess of project cost would be credited against the license plate access
15 charge. The proposed calculation of the credit, and the method for
16 applying it to the access charge would be included in Transco’s FERC
17 filing.

18

19 **SECTION IV: PROPOSED INCENTIVES**

20 Q. YOU MENTIONED EARLIER THAT ENTERGY WOULD BE PROPOSING
21 AN INCENTIVE ON PARTICIPANT FUNDED EXPANSION FOR
22 TRANSCO. WHY IS SUCH AN INCENTIVE APPROPRIATE?

23 A. I have already discussed the importance of economic transmission

1 expansion to competitive regional wholesale power markets. This seems
2 particularly true in the Entergy region, given the level of merchant
3 generation activity: 8000 MW in operation or under construction, and an
4 additional 7000MW with signed interconnection agreements. It seems
5 likely that there will be a very high level of interest in grid expansion. I
6 have also described why participant funded expansion is the preferred
7 method of expansion, and thus it is critical that Transco have an interest
8 and a stake in successfully pursuing participant funded options.

9 If participant funded expansion is to reach its full potential, Transco
10 must do three things very well:

- 11 • Identify creative, cost-effective remedies to congestion
- 12 • Tailor commercial terms and conditions to suit market
13 participants
- 14 • Quickly and cost-effectively complete the permitting and
15 construction phases of the project.

16 A well-structured incentive will focus Transco efforts in these areas,
17 ensuring that economic transmission expansion opportunities are
18 identified, funded and built.

19

20 Q. WHAT KIND OF INCENTIVE WILL ENTERGY BE PROPOSING?

21 A. Once the congestion management details have been worked out with
22 SPP, Entergy will be proposing an incentive on participant funded
23 expansions. This will take the form of a share of the value of the rights

1 created by the expansion, or, where appropriate, a development fee. The
2 “shared value” incentive will provide Transco with up to 5 percent of the
3 transmission rights created by the expansion. Transco will not hold these
4 transmission rights, but will auction them off. The auction proceeds will
5 not be credited to transmission customers. The development fee would
6 be negotiated individually with funding parties, and would be an
7 alternative to the “shared value” incentive. Either structure gives Transco
8 appropriate incentives. It must identify projects that are commercially
9 attractive to market participants, or no incentive will be earned. It must
10 come to terms on funding arrangements (including reducing its incentive,
11 if necessary), and it must also satisfy the funding parties with respect to
12 construction costs and schedule. In sum, this type of incentive makes
13 Transco a project developer. If it can successfully develop and construct
14 projects, it can earn an incentive.

15

16 Q. IS ENTERGY PROPOSING THAT TRANSCO BE ALLOWED TO EARN
17 AN INCENTIVE ON RATE FUNDED REGIONAL MARKET EXPANSION
18 INVESTMENT?

19 A. Yes. Entergy is proposing that Transco be allowed to earn an incentive,
20 in the form of an enhance allowed return on equity, on rate funded
21 regional market expansion investment.

22

23 Q. WHY IS SUCH AN INCENTIVE APPROPRIATE AND IN THE PUBLIC

1 INTEREST?

2 A. Let me say at the outset that it is unclear how much rate funded
3 expansion will in fact be undertaken; I would hope that participant funded
4 expansion would predominate. But if the perceived risks of this approach
5 limits market response, or if there are significant economic investments
6 not susceptible to participant funding, then successfully completing
7 economic expansions on a rate funded basis is important to the efficiency
8 of regional power markets. Under these circumstances, it is appropriate
9 that Transco have a financial incentive, in the form of an enhanced ROE,
10 to successfully complete such projects. Designing economic expansion
11 projects and steering potentially controversial projects through the review
12 process will be challenging, especially given the near-certainty that there
13 will be some parties who will be economically harmed by the proposed
14 investment for reasons I discussed above. State-level and local
15 permitting and construction management is also challenging and
16 potentially controversial. Securing adequate and timely rate relief is also
17 a substantial task. Faced with all these challenges, economic expansion
18 of the grid should be more than a matter of financial indifference to
19 Transco if the public interest is to be served. Transco should be an
20 advocate for economic transmission expansion that is in the public
21 interest, even when it must be rate funded.

22

23 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

- 1 A. Yes, it does.


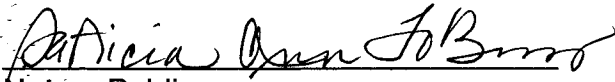
AFFIDAVIT

COMMONWEALTH OF MASSACHUSETTS)
)
COUNTY OF MIDDLESEX)

MICHAEL M. SCHNITZER, 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.


Michael M. Schnitzer

SWORN AND SUBSCRIBED BEFORE ME,
this 27th day of December, 2000.



Notary Public

My Commission Expires: June 23, 2006

MICHAEL M. SCHNITZER

Michael Schnitzer is a Director of The NorthBridge Group. He has over 20 years of experience in management consulting to clients in regulated industries, with a primary focus on the electric industry. Helping clients develop and implement competitive restructuring plans is central to Mr. Schnitzer's recent work for electric utility clients. He has developed initiatives in marketing, pricing, regulatory relations and supply planning and has broad experience in utility reorganizations.

Mr. Schnitzer has been an expert witness in a number of regulatory proceedings involving electric industry restructuring, utility supply planning, and environmental issues. He has testified before or submitted affidavit testimony to the Federal Energy Regulatory Commission, the Arkansas Public Service Commission, the Delaware Public Utilities Commission, the Indiana Utilities Regulatory Commission, the Maine Land Use Regulatory Commission, the Maine Public Utility Commission, the Maryland Public Utility Commission, the Massachusetts Department of Public Utilities, the New Hampshire Public Utility Commission, the New Mexico Public Service Commission, the New York Public Service Commission, the Ohio Public Utility Commission, the Pennsylvania Public Utility Commission, the Rhode Island Public Service Commission, the Public Utility Commission of Texas, the Vermont Public Service Board, and the Wisconsin Public Service Commission. He is a former adjunct research fellow at the Energy and Environmental Policy Center, John F. Kennedy School of Government, Harvard University. Before joining NorthBridge, Mr. Schnitzer was a Managing Director at Putnam, Hayes & Bartlett, Inc., where he co-directed the firm's regulated industry practice.

Mr. Schnitzer received an A.B. in chemistry, with honors, from Harvard University, and an M.S. in management from the Sloan School, Massachusetts Institute of Technology.