

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

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

TESTIMONY

OF

FRANK F. GALLAHER

ON BEHALF OF

ENTERGY SERVICES, INC.

October 16, 2000

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I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

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

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

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

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND.

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

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

A. I am a registered professional engineer in Mississippi and a member of the
Mississippi Society of Professional Engineers. I am a member of the Institute

1 of Electric and Electronic Engineers (“IEEE”), the IEEE Power Engineering
2 Society, and the IEEE Engineering Management Society.

3

4 Q. PLEASE DESCRIBE YOUR BUSINESS EXPERIENCE.

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

1 Companies.¹ In July 1992, I was named Senior Vice President and Fossil
2 Operations Officer for Entergy Services and Senior Vice President, Fossil
3 Operations, for AP&L, LP&L, MP&L, and NOPSI. In November 1993, I
4 was elected Executive Vice President, Fossil Operations and in January 1994,
5 I assumed the additional roles of President of Gulf States Utilities Company
6 and Merger Implementation Manager. In February 1996, I was named
7 Executive Vice President, Operations, for each of the five Operating
8 Companies, Entergy Arkansas, Inc. (“EAI”) (formerly AP&L), Entergy Gulf
9 States, Inc. (“EGS”) (formerly Gulf States Utilities Company), Entergy
10 Louisiana, Inc. (“ELI”) (formerly LP&L), Entergy Mississippi, Inc. (“EMI”)
11 (formerly MP&L), and Entergy New Orleans, Inc. (“ENO”) (formerly
12 (NOPSI). In May 1996, another individual was named President, Entergy
13 Texas, assuming my duties and responsibilities for Entergy Gulf States’
14 operations in Texas, and in July 1996, my responsibilities as Merger
15 Implementation Manager were completed. In May 1997, I was named Group
16 President, Chief Utility Operating Officer (“Group President”). I was
17 subsequently named Senior Vice President of Generation, Transmission, and
18 Energy Management and held that position until I was named to my current
19 position.

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

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Q. PLEASE DESCRIBE YOUR CURRENT DUTIES FOR THE SYSTEM.

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

II. OVERVIEW OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. My testimony is divided into four sections. First, I describe the filing that accompanies this testimony and the filings that Entergy will be making in the future to satisfy Order No. 2000. Second, I outline the structure and key elements of the Transco proposal. Third, I discuss the process through which the Entergy Operating Companies developed the Transco proposal and the partnership arrangement with the Southwest Power Pool (“SPP Partnership RTO”). Finally, I explain how the SPP/Transco Partnership proposal satisfies the minimum characteristics of a Regional Transmission Organization (“RTO”) as established in Order No. 2000.

1 Q. PLEASE DESCRIBE THE FILING THAT ENTERGY IS MAKING
2 CURRENTLY.

3 A. In compliance with the requirements of Order No. 2000, this filing describes
4 how the Operating Companies propose to participate in an RTO and requests
5 approval to form an independent, for-profit transmission company
6 (“Transco”). Entergy is also seeking approval of the partnership arrangement
7 with the SPP. Accompanying this filing is Testimony and exhibits sponsored
8 by me (the purpose of which is described above) and by Messrs.: Owens (to
9 describe the provisions of the SPP Partnership arrangement and the
10 collaborative process through which the partnership arrangement was
11 reached); Bartlett (to describe the criteria used to define the transmission
12 assets that would be transferred to the Transco, to describe the transmission
13 expansion planning process for the Transco, and to describe the difficulties
14 that Entergy is already encountering that cause it to need an effective
15 congestion management model); Williford (to describe the corporate structure
16 of the Transco and to describe the movement of assets and financial capital
17 associated with transmission assets from the Operating Companies to the
18 Transco); Langston (to identify the assets that will be transferred to the
19 Transco and to describe the allocation and accounting treatment associated
20 with the transfer of such assets); and Schnitzer (to describe the Operating
21 Companies’ position on market design and congestion management and to

1 describe how the expansion of the transmission system will work under the
2 market design proposed by Entergy.

3

4 Q. WILL THE OPERATING COMPANIES BE MAKING SUBSEQUENT
5 FILINGS RELATED TO THE FORMATION OF TRANSCO?

6 A. Yes, the Operating Companies will be making at least one, and possibly two,
7 additional filings with the Commission related to the formation of the Transco,
8 qualification of the SPP Partnership arrangement as an RTO, and establishing
9 the Transco's rate schedules. In this filing, the Operating Companies are: (1)
10 describing the structure and governance of the Transco; (2) discussing the
11 SPP Partnership RTO arrangement and the division of responsibilities between
12 the SPP and the Transco under such arrangement; (3) requesting Commission
13 authorization to establish the Transco, including the associated transfers of
14 assets; and (4) requesting approval of the SPP Partnership RTO arrangement
15 as an RTO.

16

17 Q. WHAT OTHER FILINGS DOES ENTERGY PLAN TO MAKE
18 REGARDING THE FORMATION OF THE TRANSCO AND THE
19 QUALIFICATION OF THE SPP PARTNERSHIP RTO?

20 A. During December of this year, as Entergy and SPP move closer to finalizing
21 the details associated with implementing the congestion management structure
22 that has been agreed to in principle, the Operating Companies intend to file

1 rate schedules containing the proposed rates for transmission service across
2 the facilities owned and/or leased by the Transco (“Transco Rate Schedules”).

3 It is anticipated that the Transco Rate Schedules will become part of the
4 regional transmission tariff for the SPP Partnership RTO and will include the
5 “license plate” rate for the loads located within the area covered by the
6 transmission facilities formerly owned by the Operating Companies. The
7 December filing will also set forth the Transco’s proposed treatment of the
8 costs of constructing new transmission facilities and the incentive ratemaking
9 treatment that the Operating Companies will be requesting as part of the
10 establishment of Transco.

11

12 Q. DO YOU ANTICIPATE MAKING ANY FILINGS AFTER THE
13 DECEMBER 2000 FILING?

14 A. At this time, Entergy anticipates that the SPP will file in early 2001 a revised
15 SPP Partnership RTO Transmission Tariff that incorporates the agreed upon
16 congestion management structure and further describes the market design to
17 be adopted within the SPP Partnership RTO region (“RTO Transmission
18 Tariff”). As the details of the RTO Transmission Tariff are being finalized, the
19 Operating Companies will review the Transco Rate Schedules to ensure that
20 they are consistent with, and can be incorporated into, the RTO Transmission
21 Tariff. In the event any modifications to the Transco Rate Schedules are
22 necessary, the Operating Companies will file for such modifications

1 contemporaneous with the filing by the SPP of the revised RTO Transmission
2 Tariff.

3

4 Q. ARE THERE OTHER REGULATORY APPROVALS THAT WILL BE
5 NEEDED?

6 A. Yes, in addition to the filings with the Commission described above, the
7 Operating Companies will also be making separate filings with the Arkansas
8 Public Service Commission, the Council for the City of New Orleans, the
9 Louisiana Public Service Commission, and the Mississippi Public Service
10 Commission requesting the necessary authorization to transfer the
11 transmission facilities of the respective Operating Companies to the Transco.
12 It is anticipated that the filings with these retail regulators will be made during
13 November 2000. Entergy Gulf States, Inc. will also make any additional
14 filings with the Public Utility Commission of Texas that are necessary to
15 establish the Transco. The Operating Companies and the Transco intend to
16 file with the Securities and Exchange (“SEC”) during the first quarter of 2001.

17

18 Q. WILL THIS FILING SCHEDULE ENABLE THE TRANSCO TO BE
19 OPERATIONAL BY DECEMBER 15, 2001?

20 A. Yes, this filing schedule should ensure that all the necessary regulatory
21 approvals can be obtained by the beginning of the third quarter of 2001 and
22 the Transco can be operational by December 15, 2001. Once the Transco has

1 A. While we first discussed the formation of an independent transmission
2 company (“Transco”) during the Commission’s April 1998 public conference
3 regarding future transmission policies, it was in April 1999 that the Operating
4 Companies filed a petition for declaratory order that more fully set out the
5 details of the Operating Companies’ Transco proposal and requested
6 Commission guidance on whether such a proposal was consistent with the
7 Independent System Operator (“ISO”) principles established in Order No.
8 888. The Commission granted the petition and issued a declaratory order
9 generally affirming the Operating Companies’ commitment to form a Transco.
10 With the guidance we received from the Commission in the declaratory order
11 and subsequent orders identifying RTO requirements, the Operating
12 Companies, along with a variety of other market participants, have developed
13 a proposal, the SPP Partnership arrangement, that the Operating Companies
14 believe satisfies the requirements of Order No. 2000.

15
16 Q. HOW HAS THE OPERATING COMPANIES’ PROPOSAL TO
17 ESTABLISH AN INDEPENDENT TRANSMISSION COMPANY
18 EVOLVED FROM THE PROPOSAL INITIALLY FILED IN THE APRIL,
19 1999 PETITION FOR DECLARATORY ORDER?

20 A. Based on the guidance received from the Commission, concerns raised by the
21 Operating Companies’ retail regulators, and comments received from other
22 stakeholders, the Operating Companies have made significant modifications to

1 their original Transco proposal. In particular, the Operating Companies have
2 responded to requests made during the stakeholder process to evaluate
3 alternative transmission structures that would enhance the scope and
4 independence of the Transco.

5 As a result, two significant modifications have been made to the
6 proposed Transco structure since the issuance of the Commission's
7 declaratory order. First, the Operating Companies have modified the structure
8 of the Transco to incorporate a managing member structure similar to that
9 recently approved by the Commission for the Alliance companies. Second,
10 the Operating Companies have developed an arrangement with the Southwest
11 Power Pool ("SPP") that would allow the Transco to operate under the
12 oversight of an SPP RTO.

13

14 Q. PLEASE BRIEFLY DESCRIBE THE STRUCTURAL MODIFICATIONS
15 TO THE TRANSCO.

16 A. As will be more fully discussed later in my testimony, in response to
17 continuing concerns raised by our retail regulators about the independence of
18 the original Transco structure and comments received from other market
19 participants, the Operating Companies have modified their original Transco
20 proposal to establish a separate corporate entity, the Managing Member, to
21 manage the business affairs of the Transco. As structured, the Managing
22 Member will be the entity that owns all of the voting interest of the Transco

1 and will be the entity where the Board of Directors will be located. This
2 modification will move the independent Board of Directors one step further
3 away from the passive owners and should also enhance the ability of the
4 Transco to access the equity markets.

5
6 Q. PLEASE BRIEFLY DESCRIBE THE SECOND MODIFICATION
7 RELATED TO THE ARRANGEMENT WITH THE SOUTHWEST
8 POWER POOL.

9 A. With regard to the SPP arrangement, during the first part of 2000, the
10 Operating Companies began to investigate an arrangement similar to the
11 “binary” RTO structure proposed by the Midwest Independent System
12 Operator (“MISO”) and Commonwealth Edison (“ComEd”). The Operating
13 Companies believed such a structure would address many of the concerns
14 raised by the various market participants. The SPP appeared to the Operating
15 Companies to represent a viable opportunity for developing such a partnership
16 proposal because: (1) many of the transmission-owning utilities that were
17 interconnected with the Operating Companies were already members of the
18 SPP; (2) the Operating Companies participate in a reserve sharing
19 arrangement with SPP members; and (3) the SPP had made considerable
20 progress in developing an RTO proposal.

21 Accordingly, on May 11, 2000 I presented to the SPP a proposal for
22 such a structure. The SPP expressed interest in the proposal and voted to

1 establish a working group to evaluate the Operating Companies' proposed
2 arrangement, to develop any necessary modifications, and to come back to the
3 SPP Board of Directors with a recommendation on whether to proceed with
4 such an arrangement.

5

6 Q. DID THE SPP WORKING GROUP ULTIMATELY RECOMMEND
7 APPROVAL OF THE PARTNERSHIP PROPOSAL TO THE SPP BOARD
8 OF DIRECTORS?

9 A. Yes, as more fully discussed in the testimony of Mr. Owens, the SPP working
10 group and representatives of the Operating Companies were able to agree
11 upon modifications to the initial proposal that addressed the concerns of the
12 variety of participants on the SPP working group. The modified proposal was
13 presented to the SPP Board of Directors on July 20. The Board approved the
14 proposed partnership arrangement set forth in the SPP Partnership RTO
15 memorandum of understanding ("SPP Partnership Memorandum of
16 Understanding") (attached to the Application as Attachment G) and requested
17 that the terms be incorporated into an agreement to be executed by the SPP
18 Staff. The agreement will be subject to the ratification by the SPP Board of
19 Directors.

20

21 Q. DO THE OPERATING COMPANIES STILL BELIEVE THAT
22 FORMATION OF TRANSCO, RATHER THAN JOINING THE SPP IN A

1 MANNER SIMILAR TO THE OTHER TRANSMISSION-OWNING
2 ENTITIES, IS THE BEST COURSE?

3 A. Absolutely. As the Commission is aware, throughout the evolution of the
4 RTO policy, Entergy has pursued consistently a commercially viable, stand-
5 alone transmission business. Over the long run, Entergy believes this is in the
6 best interest of its customers and its shareholders alike. The need for this type
7 of business model is nowhere more apparent than in Entergy's service
8 territory.

9 There is a substantial amount of new generation being sited, or
10 evaluating siting, within the area covered by the transmission facilities of the
11 Operating Companies. In fact, the Operating Companies have executed (or
12 filed unexecuted) interconnection agreements representing in excess of 15,000
13 megawatts ("MW") of new generation. This new generation is going to put
14 significant pressure on the transfer capability of the current transmission grid.
15 I believe that the Transco model is the best vehicle to facilitate the grid
16 expansion that is necessary to create a robust wholesale power market for
17 both the generators and the wholesale and retail customers. The Transco will
18 be a regulated, for-profit entity that will be responsive to incentives for
19 superior grid performance and high-quality service and can be held
20 accountable for its commercial actions. Moreover, over the long run the
21 Managing Member structure will be able to more easily access the capital
22 markets necessary to fund the expansion of the grid. I also believe that the

1 Transco structure moves the industry closer to the “end-state” of large,
2 independent, publicly-owned transmission companies. As discussed in the
3 next section of my testimony, the Managing Member structure that the
4 Operating Companies are proposing will include a mechanism that will
5 facilitate the passive owners of the Transco being able to divest their passive
6 interest to public shareholders.

7

8 **IV. STRUCTURE OF TRANSCO**

9

10 Q. PLEASE DESCRIBE HOW THE TRANSCO IS GOING TO BE
11 ESTABLISHED.

12 A. Under the structure proposed by the Operating Companies, each of the
13 Operating Companies will transfer its transmission facilities to a separate
14 company (the “Transco”). As explained in the testimony of Mr. Williford, in
15 exchange for such a transfer, the Operating Companies will receive a passive
16 ownership interest in the Transco. Additionally, we expect the employees of
17 the Operating Companies and Entergy Services, Inc. that are engaged in the
18 operation, maintenance, restoration and construction of the transferred
19 transmission facilities will work for the Transco. As discussed later in my
20 testimony, other transmission-owning utilities will be able to commit their
21 assets and employees to the Transco in a similar manner, or through a lease or
22 operating agreement.

1

2 Q. WHO WILL OWN THE TRANSCO?

3 A. The Transco, which will be a Delaware limited liability company, will be
4 owned by two types of entities: (1) the passive owners of Transco, which
5 include Entergy and other transmission-owning entities that transfer their
6 transmission facilities to the Transco; and (2) a separate corporation
7 established to own the voting interest in the Transco (the “Managing
8 Member”).

9

10 Q. HOW WILL THE OWNERSHIP INTERESTS BE DETERMINED?

11 A. The LLC Agreement is currently structured to provide that each entity that
12 transfers assets to the Transco will receive an interest based on the value of
13 the assets that it contributes as a proportion of the value of all of the assets
14 contributed to the Transco. With respect to entities that transfer transmission
15 facilities to the Transco, the transmission facilities will be transferred at their
16 book value and the transferring entity will receive its interest based on the
17 book value. With respect to the Managing Member it will initially receive a
18 nominal ownership interest. At such time as it commits cash or other capital
19 to the Transco it will receive an ownership interest based on the amount of
20 cash or investment committed. The critical distinction between the two
21 “owners” is that the entities committing transmission assets to the Transco
22 will receive a passive, non-voting ownership interest, while the Managing

1 Member will receive the voting interest in the Transco as well as an ownership
2 interest.

3

4 Q. WHAT LEVEL OF EQUITY INTEREST WILL THE MANAGING
5 MEMBER HAVE IN THE TRANSCO?

6 A. I anticipate that the Managing Member's ownership interest in the Transco
7 will change over time, with the Managing Member initially owning a nominal
8 interest in the Transco (but 100% of the voting interest in the Transco) and
9 then progressively owning a larger and larger share of the Transco. This will
10 occur in two ways. First, as set forth in the LLC Agreement, the Transco
11 cannot require the passive owners to contribute additional capital to the
12 Transco. Instead, the Transco will have to raise the capital necessary to fund
13 the investment that will need to be made in the transmission system through
14 access to the capital markets. While it is anticipated that the Transco will be
15 able to directly obtain the debt, the Managing Member will be the vehicle used
16 to access the equity markets, through a public offering or, on an interim basis,
17 through a private placement. As the Managing Member contributes this
18 additional capital to the Transco, its interest in the Transco will increase.

19 The second way that the Managing Member's interest in the Transco
20 will grow is through a conversion mechanism that has been incorporated into
21 the structure. The Managing Member structure is designed to provide a
22 means by which the passive members can convert their interest from a passive

1 interest to a voting Managing Member interest at such time as they divest their
2 passive interest to an entity that is not a market participant. This structure
3 allows the passive owners to eventually divest their passive investment.

4

5 Q. WHAT RIGHTS WILL THE PASSIVE OWNERS HAVE IN THE
6 TRANSCO?

7 B. The passive interest owners will be entitled to receive their allocated share of
8 distributions from the Transco, but will have no rights to manage the LLC.
9 The limited rights that the passive owners will retain will be explicitly set forth
10 in the LLC Agreement (a copy of which is attached to the Application as
11 Attachment A). The passive owners' rights will be limited to a very narrow
12 list of issues that are fundamental to the continued operation of the Transco.
13 For instance, the passive owners will retain the right to vote on the sale or
14 disposition of all, or substantially all, of the assets of the Transco, or the
15 commencement of bankruptcy proceedings by the Transco. However, the
16 passive owners will not have the right to vote on, or influence, the day-to-day
17 business operations of the Transco.

18

19 Q. WHAT RIGHTS WILL THE MANAGING MEMBER HAVE IN THE
20 TRANSCO?

21 A. The Managing Member will hold the voting interest in the Transco and will be
22 responsible for managing the business affairs of the Transco. When it has

1 made a capital contribution it will be treated like the passive owners and will
2 receive distributions from the Transco. Prior to that time it will receive a
3 distribution based on its nominal ownership interest. The Managing Member,
4 through its independent board of directors, will have a fiduciary obligation to
5 its stockholders and the passive members to maximize the value of the
6 Transco.

7

8 Q. HOW WILL THE INITIAL BOARD OF DIRECTORS OF THE
9 MANAGING MEMBER BE SELECTED?

10 A. The Managing Member will have a seven (7) member independent board of
11 directors with the expertise necessary for running an independent transmission
12 company and accessing capital markets. As set forth in the Transco
13 Implementation Plan (attached to the Application as Attachment D), in order
14 to seat the initial board of directors the passive owners will select one national
15 search firm from the following three: Korn Ferry International, Heidrick &
16 Struggles International, and Russell Reynolds. The selected search firm will
17 then identify fourteen candidates that satisfy the board member qualifications
18 set forth in the Transco Implementation Plan. The search firm will provide the
19 names and qualifications of the candidates to the Board Selection Committee.

20

21 The Board Selection Committee will consist of two representatives
22 from the group of utilities that have given notice of their intent to transfer

1 their transmission facilities to the Transco, one representative from the group
2 of entities that have given notice of their intent to execute an operating
3 agreement with the Transco, two representatives from the group of the
4 cooperatives, municipalities, and federal power marketing agencies that sell
5 electricity at retail or at wholesale within the area served by the members of
6 the Transco, and two representatives from the group of the power marketers,
7 brokers, industrial consumers, and entities that are developing generation
8 facilities that are, or will be, connected to the transmission grid owned by the
9 Transco. Each market participant group will be responsible for identifying
10 their representatives. Each representative on the Board Selection Committee
11 will have one vote. The Board Selection Committee will then select seven
12 directors from the fourteen candidates identified by the search firm.

13

14 Q. WHEN WILL THE INITIAL BOARD OF DIRECTORS BE SELECTED?

15 A. In order to have the Transco operational by December 15, 2001, the
16 Operating Companies intend to begin the Board Selection Process during the
17 second quarter of 2001. Initiating the process at this time should allow for the
18 initial board of directors to be seated by the third quarter of 2001. It is for
19 this reason, that the Operating Companies are requesting that the Commission
20 approve, by March 1, 2001, the board selection process outlined above.

21

22 Q. HOW WILL THE SUBSEQUENT DIRECTORS BE SELECTED?

1 A. The board members will serve for staggered, three-year terms unless they
2 resign or are removed for cause. When vacancies on the board arise (either
3 through resignation, removal or the expiration of a board members' term),
4 either the existing board members or the equity owners of the Managing
5 Member will be able to re-appoint the current board member to an additional
6 term or select a new member as set forth in the Transco Implementation Plan.
7 In the event that the remaining board members are filling the vacancy and
8 they cannot agree on the selection of the new board member, the new board
9 member will be chosen through the same process as the initial board members.

10
11

12 Q. CAN A MEMBER OF THE BOARD OF DIRECTORS BE AFFILIATED
13 WITH ANY MARKET PARTICIPANT?

14 A. No, each member of the board of directors will be bound by a strict code of
15 conduct that will prohibit any director from being an employee, officer, or
16 director of a market participant. The Standards of Conduct, which are set
17 forth at Exhibit 1 of the LLC Agreement, will apply to the Directors and
18 Officers of the Managing Member as well as officers and employees of the
19 Transco. Pursuant to these Standards, the Directors, officers, and employees:
20 (1) will be precluded from providing preferential treatment to any market
21 participant or preferential access to information concerning the transmission
22 system; and (2) will be required to divest their financial interest in any market

1 participant within six (6) months of the date of their employment with the
2 Managing Member or the Transco, unless those financial interests are held
3 through a diversified mutual fund. Directors, officers, and employees will be
4 able to participate in certain benefit or pension plans of a market participant
5 provided the market participant's performance has no material effect on such
6 plans.

7

8 Q. YOU INDICATED THAT THE OPERATING COMPANIES ARE GOING
9 TO TRANSFER TRANSMISSION ASSETS TO THE TRANSCO. DO
10 THE OPERATING COMPANIES INTEND TO TRANSFER TO THE
11 TRANSCO ALL OF THE FACILITIES THAT THEY CURRENTLY USE
12 TO PROVIDE TRANSMISSION SERVICE.

13 A. As explained in the testimony of George Bartlett, the Operating Companies
14 intend to transfer to the Transco those facilities that operate at 69 kV or
15 above and associated equipment. However, there are a limited number of
16 lower voltage facilities that are used currently to provide transmission service
17 to certain wholesale customers of the Operating Companies. While these
18 facilities will not be transferred to the Transco, the Transco and the Operating
19 Companies will enter into an agency agreement that will permit the Transco to
20 continue to provide transmission service to wholesale customers over these
21 facilities. Such service will be provided under the terms and conditions of the
22 SPP RTO Transmission Tariff, but with an additional charge to recover the

1 cost of such distribution facilities. The additional charge will be set forth in a
2 rate schedule that the Operating Companies will file with the Commission.
3 Moreover, in the event that there are certain discrete or nominal transmission
4 facilities that the Operating Companies are prevented from transferring initially
5 because of legal restrictions (i.e., franchise issues), these facilities would also
6 be covered by the agency agreement.

7

8 Q. ARE THERE WAYS FOR ENTITIES TO PARTICIPATE IN THE
9 TRANSCO WITHOUT HAVING TO DIVEST THEIR ASSETS TO THE
10 TRANSCO?

11 A. Yes, the Operating Companies have tried to ensure that the Transco structure
12 and the SPP Partnership arrangement are flexible enough to accommodate the
13 requirements of a variety of transmission owners. For instance, for
14 transmission owners that elect not to transfer, or are precluded from
15 transferring, their transmission facilities to the Transco, an Operating
16 Agreement has been developed, a copy of which is attached to the Application
17 as Attachment E, to permit those entities to commit the operation of their
18 facilities to the Transco. While a form of this agreement has been submitted
19 with this filing, the Operating Companies remain willing to work with
20 participants in the event that modifications are necessary to address their
21 particular circumstances. A lease agreement will also be available to permit
22 entities to lease, rather than transfer in fee, their transmission facilities to the

1 Transco. At such time as a lease or operating agreement is executed, it will be
2 submitted to the Commission

3

4 Q. WILL THE FORMATION OF THE TRANSCO REQUIRE
5 MODIFICATIONS TO THE SYSTEM AGREEMENT?

6 A. Yes. Currently, the System Agreement provides the contractual basis for the
7 planning, construction, and operation of the transmission facilities on an
8 integrated basis for the use of the combined System. Service Schedule MSS-2
9 prescribes the method of allocating any imbalance of costs associated with the
10 operation of this bulk transmission system among the Operating Companies.
11 As proposed in this filing, all of the transmission facilities covered by Service
12 Schedule MSS-2 will be transferred to the Transco. The Transco would own
13 and operate the transmission facilities in accordance with the terms of the SPP
14 Partnership arrangement and the RTO Transmission Tariff. Each of the
15 Operating Companies or, in the case of the jurisdictions that are moving to
16 retail access, the retail electric provider, would purchase the transmission
17 service necessary to serve its load in accordance with the provisions of the
18 RTO Transmission Tariff. The RTO Transmission Tariff would establish the
19 rates, terms, and conditions for the use of the transmission system and the
20 provisions of Service Schedule MSS-2 would no longer be applicable. As a
21 result, with the filing of the Transco Rate Schedules in December 2000, the

1 Operating Companies shall request authorization to terminate Service
2 Schedule MSS-2 of the System Agreement.

3

4 **V. STRUCTURE OF RTO PARTNERSHIP ARRANGEMENT**

5

6 Q. PLEASE PROVIDE AN OVERVIEW OF THE DIVISION OF
7 RESPONSIBILITIES BETWEEN SPP AND TRANSCO.

8 A. As more fully described in the testimony of Mr. Owens, the SPP Partnership
9 arrangement provides for an SPP Partnership RTO to be the security
10 coordinator for the SPP and Transco system and to provide the forum for
11 market monitoring and dispute resolution. The SPP Partnership RTO will
12 administer a joint OASIS site and will calculate the available transfer
13 capability (“ATC”) and total transfer capability (“TTC”) for the SPP and
14 Transco systems. The SPP will also administer a single RTO Transmission
15 Tariff, although the Transco will have rate schedules within the RTO
16 Transmission Tariff. It is further contemplated that the SPP Partnership RTO
17 will run a regional congestion management system.

18

19 Q. UNDER THIS ARRANGEMENT, WHAT FUNCTIONS WILL THE
20 TRANSCO PERFORM FOR ITSELF?

21 A. While the operating procedures have not yet been finalized, it is anticipated
22 that there will be three broad functions that the Transco will perform. These

1 functions include: (1) administering requests for transmission service across
2 the Transco system; (2) evaluating the requests for interconnection to the
3 Transco system; and (3) developing the expansion plan for the Transco
4 system. All of these functions, however, will be performed under the
5 oversight of the SPP RTO.

6 For instance, administering requests for transmission service across the
7 Transco system will involve accepting or rejecting requests for transmission
8 service, performing the system impact study for those requests that the
9 Transco cannot accommodate without further evaluation, and billing for the
10 transactions that “sink” into the Transco area or that exit the SPP Partnership
11 RTO through a Transco interface with non-SPP transmission owners.

12 However, the accepting or rejecting of transmission requests is done first
13 based on whether there is sufficient ATC to accept the request. The SPP
14 Partnership RTO, not the Transco, will calculate the ATC and TTC for the
15 Transco system. Moreover, because the ATCs and TTCs will be posted on
16 the SPP Partnership RTO OASIS, because all requests for transmission
17 service will be made through the SPP Partnership RTO OASIS, and because
18 the Transco’s action on each of the requests for service will be disclosed on
19 the SPP Partnership RTO OASIS, this process is very visible and easily
20 audited. In the event that a transmission request cannot be accommodated
21 based on the posted ATCs, then the Transco will perform a system impact
22 study to determine whether such a request can be accepted. As with the

1 process outlined above, the results of the system impact studies will be posted
2 and can be reviewed by any interested party, including the market monitor
3 should a party request.

4 Evaluating the requests for interconnection to the Transco system is
5 another function that will be performed by the Transco. As with the
6 administering requests for transmission service, this function will be performed
7 under the oversight of the SPP Partnership RTO and will provide well-
8 documented processes and analyses that are used to conduct the
9 interconnection study and facility study. The requests to interconnect will
10 come through the SPP Partnership RTO, will be assigned to the Transco for
11 the necessary analysis, and will be processed in accordance with a standard
12 SPP Partnership RTO procedure that has been filed with the Commission.
13 The results of such process and analysis will be well-documented and capable
14 of review by third parties.

15 As explained in the testimony of Mr. Bartlett and Mr. Owens, the
16 Transco will develop the transmission expansion plan for its region. This
17 expansion plan will be developed through an open process that is designed to
18 incorporate feedback from all market participants operating, or proposing to
19 operate, in the Transco area. Moreover, the Transco's expansion plan will be
20 submitted to the SPP Partnership RTO for review and inclusion in the broader
21 regional transmission expansion plan. The SPP Partnership RTO will review
22 the rate-funded projects for reliability considerations and the appropriateness

1 of such projects. The SPP Partnership RTO will also review the market-
2 funded projects for reliability considerations.

3 Transco will also have the right to control its rates and rate design and
4 the ability to unilaterally propose new service offerings that are not contained
5 in the RTO Transmission Tariff. As stated in the SPP Partnership
6 Memorandum of Understanding, Transco will not propose new services that
7 will alter the terms and conditions of service across the SPP Systems other
8 than the Transco. Retention of this right is appropriate given that Transco
9 will be an independent entity whose only business will be the provision of
10 transmission service. The economic success of the Transco will be driven by
11 its relationship with customers. Being responsive to their needs and
12 maintaining the ability to offer alternative solutions for network expansion and
13 interconnection, subject to the approval of the Commission, is critical to the
14 business and operation of the Transco.

15

16 Q. WILL THE TRANSCO'S RELATIONSHIP TO SPP DIFFER FROM THAT
17 OF OTHER TRANSMISSION OWNERS?

18 A. In certain respects, yes. This is appropriate. There are fundamental structural
19 distinctions between the Transco and the other transmission-owning members
20 of the SPP. The other transmission-owning members will continue to have
21 their transmission assets bundled with the other assets of the integrated utility,
22 and employees and officers that manage the day-to-day operation and

1 maintenance of the transmission facilities will continue to be employed by the
2 integrated utility, ultimately answering to the senior management of the
3 integrated utility.

4 The Transco, on the other hand, will be an independent company
5 whose only business will be to operate, maintain, and enhance the transmission
6 system. The employees and officers of the Transco will report to a board of
7 directors that is independent of any market participant (which includes the
8 Operating Companies and any Entergy affiliate), will be compensated based
9 on the financial results of the Transco (not the financial results of the
10 integrated utility), and will be precluded from having a financial interest in any
11 market participant. Unlike the other transmission-owning SPP members that
12 satisfy the independence requirements of Order No. 2000 by submitting
13 control of their transmission system to the SPP, the Transco satisfies the
14 independence requirement in its own right, independent of the SPP. As
15 explained in the next section of my testimony, this distinction becomes
16 important in evaluating the division of responsibilities between the Transco
17 and the SPP.

18

19 Q. HAVE ALL OF THE TERMS OF THE SPP/TRANSCO PARTNERSHIP
20 BEEN FINALIZED?

21 A. No. As indicated in the memorandum of understanding, the SPP Partnership
22 arrangement is conditioned on the SPP, stakeholders, and the Transco

1 agreeing to adopt a regional congestion management structure. It is for this
2 reason that the Operating Companies at this time are requesting approval of
3 the SPP Partnership arrangement subject to the outcome of the future filings
4 discussed earlier.

5 As more fully discussed in the testimony of Mr. Owens, during the
6 period of time that the SPP working group was developing the SPP
7 Partnership proposal, it became apparent that the SPP would not be in a
8 position to finalize their congestion management proposal until the latter part
9 of this year. It further became apparent that, absent a determination on the
10 congestion management proposal, the provisions of the SPP Partnership
11 arrangement could not be finalized, in particular the provisions for a region-
12 wide single transmission tariff and a single source of TTC/ATC calculations.
13 Given this information, the SPP working group and the Operating Companies
14 determined that the best course of action would be to develop the terms and
15 conditions of a partnership arrangement premised on both parties agreeing to
16 one congestion management structure and then diligently work together to try
17 to make the underlying premise a reality.

18 Subsequent to the approval of the SPP Partnership arrangement, the
19 SPP and the Operating Companies were able to reach an agreement in
20 principle on a congestion management structure. The Operating Companies
21 anticipate that SPP will develop a majority of the details necessary to
22 implement the agreed-upon structure by the end of 2000. As explained in the

1 testimony of Messrs. Owens and Schnitzer, the Operating Companies are
2 optimistic that the details of a congestion management structure can be
3 developed that are acceptable to the SPP, the Operating Companies, and the
4 Commission.

5

6 Q. WHY IS THE PRECISE STRUCTURE OF THE CONGESTION
7 MANAGEMENT SO CRITICAL TO THE TRANSCO?

8 A. As explained more fully in the testimony of Messrs. Bartlett and Schnitzer, the
9 Operating Companies' transmission system is currently congested and has
10 significant operational and planning issues that can be addressed adequately
11 only through the development of an efficient, market-based congestion
12 management system. The situation is made more complex by the advent of
13 retail access in two States and the influx of merchant generation. It would not
14 be in the best interest of the Operating Companies, their ratepayers, their
15 current transmission customers, or the regional marketplace to agree to adopt
16 a congestion management system that does not adequately address the
17 complex congestion issues experienced on the Operating Companies'
18 transmission system.

19

20 Q. WHAT HAPPENS IF THE SPP AND THE OPERATING COMPANIES
21 FAIL TO REACH AGREEMENT ON THE DETAILS OF THE

1 CONGESTION MANAGEMENT STRUCTURE AGREED TO IN

2 PRINCIPLE?

3 A. As I indicated earlier, the Operating Companies are optimistic that the
4 agreement in principle that the SPP and Entergy have reached will ultimately
5 lead to an acceptable congestion management structure for the entire region.
6 In the unlikely event, however, that the SPP and the Operating Companies fail
7 to agree on a final congestion management structure, the Operating
8 Companies are committed to working with SPP to attempt to develop an
9 alternative partnership arrangement, based on separate congestion
10 management systems, that would satisfy the Commissions' RTO requirements.
11 Nonetheless, until such time as all the details of the SPP/Transco Partnership
12 have been mutually agreed upon, the Operating Companies reserve their rights
13 to present to the Commission other structures, partnerships, or arrangements
14 to satisfy the Commission's RTO requirements.

15

16 Q. WAS THE STRUCTURE YOU ARE ASKING THE COMMISSION TO
17 APPROVE AS AN RTO DEVELOPED THROUGH THE USE OF A
18 STAKEHOLDER PROCESS?

19 A. Yes, the SPP Partnership RTO was developed through the use of a
20 stakeholder or collaborative process. As more fully described in the testimony
21 of Mr. Owens, the process allowed all interested market participants to
22 identify any and all concerns with the arrangement and suggest modifications

1 or alternatives to the proposed arrangement. Moreover, the details of the
2 congestion management structure are being developed as part of the SPP
3 collaborative process.

4 With regard to the Transco structure itself, a significant number of
5 market participants articulated their views and suggestions during the
6 declaratory order proceeding. Following the issuance of the Commission's
7 declaratory order, the Operating Companies continued to meet with their
8 retail regulators and other market participants within the region to discuss
9 alternative structures and obtain their feedback. Moreover, the Operating
10 Companies presented their emerging view of an alternate RTO structure for
11 the region during both the Kansas City and Atlanta Commission Collaborative
12 meetings.

13

14 **VI. TRANSCO/SPP PARTNERSHIP ARRANGEMENT**

15 **SATISFIES RTO REQUIREMENTS**

16

17 Q. DOES THE SPP PARTNERSHIP RTO SATISFY THE REQUIREMENTS
18 ESTABLISHED IN ORDER NO. 2000?

19 A. Yes, the SPP Partnership RTO complies with the requirements of Order No.
20 2000 and should be approved as an RTO, conditioned on the successful
21 resolution of the details of the congestion management structure. As
22 explained below, the SPP Partnership RTO satisfies the four minimum

1 characteristics of an RTO. It will be independent of any market participant; it
2 will be of a sufficient scope and configuration to permit the RTO to maintain
3 reliability, effectively perform its required functions, and support efficient and
4 non-discriminatory power markets; it will have operational authority for all
5 transmission facilities under its control and will be the security coordinator for
6 the facility it controls; and it will have exclusive authority for maintaining the
7 short-term reliability of the grid that it operates. Moreover, as explained in
8 the testimony of Mr. Owens, it also will perform the eight functions mandated
9 by Order No. 2000.

10
11 **VII. REQUIRED CHARACTERISTICS**

12
13 Q. WILL THE SPP PARTNERSHIP RTO BE INDEPENDENT OF ANY
14 MARKET PARTICIPANT?

15 A. Yes, the SPP Partnership RTO, which entails an independent Transco
16 operating under the oversight of the independent SPP Partnership RTO, will
17 comply fully with the independence requirements set forth in Order No. 2000.
18 First, as explained in the SPP's RTO filing, the SPP's governance structure
19 satisfies the independence requirements. With respect to the Transco, the
20 Transco/Managing Member governance structure is designed to ensure that
21 the directors of the Managing Member and the employees of the Transco will
22 have no financial interest in any Market Participant. The Code of Conduct

1 attached to the LLC Agreement and the Managing Member By-Laws set
2 forth the provisions ensuring compliance with this requirement.

3 In addition, the Managing Member structure ensures that the decision-
4 making process of the Transco is independent of any market participant or any
5 class of market participants. The Managing Member is the entity that obtains
6 100% of the voting interest of the Transco and is the entity that directs the
7 business affairs of the Transco. The Board of Directors of the Managing
8 Member is chosen through a selection process that is consistent with board
9 selection processes that the Commission has approved. Once the initial board
10 is seated, it will be self-perpetuating until such time as there is public and/or
11 private investment in the Transco. Once the Managing Member has sold
12 stock through an initial public offering, the Board of Directors will be selected
13 and seated by the public investors, just like in any other publicly held
14 corporation. In the event that there is an interim period of time where there is
15 only private investment in the Managing Member, the private investors will be
16 provided voting rights proportionate to their investment in the Transco.
17 Moreover, the Managing Member has been structured to prohibit any market
18 participant, as that term is defined in Order No. 2000, from owning any voting
19 securities of the Managing Member. As a result, once the initial board of
20 directors has been seated, market participants will be precluded from selecting
21 the Board of Directors of the Managing Member. Having the Board selected

1 in this fashion is another level of independence and further ensures that no
2 market participant is directing the activities of the Transco.

3 As more fully explained earlier in my testimony, the governance
4 structure of the Transco/Managing Member also precludes the transmission
5 owners from having an active ownership interest in the Transco. Except with
6 respect to certain extraordinary decisions (e.g., mergers, acquisitions,
7 bankruptcies), the passive owners will have no rights to vote on the business
8 affairs of the Transco and, other than their participation in the initial selection
9 of the board, will have no rights to control the board selection.

10 Finally, the Transco/Managing Member structure should enhance the
11 ability of the Transco to access the equity markets. The infusion of capital by
12 these non-market participants will further strengthen the independence of the
13 Transco. This structure also facilitates the divestiture by the passive owners
14 of their interests in the Transco, leading to the complete divestiture of the
15 assets from the integrated utilities.

16

17 Q. WILL THE SPP/TRANSCO PARTNERSHIP COVER A REGION THAT
18 IS OF SUFFICIENT SCOPE AND CONFIGURATION TO MAINTAIN
19 RELIABILITY, EFFECTIVELY PERFORM THE REQUIRED
20 FUNCTIONS, AND SUPPORT EFFICIENT AND NON-
21 DISCRIMINATORY POWER MARKETS?

1 A. Yes, as can be seen from the map identifying the combined area covered by
2 the Transco's facilities as well as the SPP transmission-owning members'
3 facilities, a copy of which is attached to my testimony as Exhibit FFG-1, the
4 SPP Partnership RTO will cover a sufficient region. The SPP Partnership
5 RTO will cover a total area of 400,000 square miles, will control
6 approximately 52,000 miles of transmission facilities, and will serve a peak
7 load of approximately 60,000 megawatts. In fact, the SPP Partnership RTO
8 will be larger than the New York, the NEPOOL, and the PJM ISOs. The SPP
9 Partnership RTO will cover a contiguous area, that is highly interconnected,
10 and that will have few "holes." Moreover, as explained in the testimony of
11 Mr. Bartlett, there is a substantial amount of new merchant generation that is
12 either constructing, or evaluating constructing, within the area covered by the
13 transmission facilities of the Transco.

14
15 Q. WILL THE SPP/TRANSCO PARTNERSHIP HAVE OPERATIONAL
16 AUTHORITY FOR ALL TRANSMISSION FACILITIES UNDER ITS
17 CONTROL?

18 A. Yes. First, the SPP Partnership RTO will serve as the security coordinator for
19 the entire RTO region, including the Transco. With respect to the other
20 transmission-owning members of the SPP, the SPP indicates in its RTO filing
21 that the RTO Membership Agreement provides SPP with the necessary
22 operational authority. With respect to its facilities, the Transco's operational

1 authority will include, (1) switching transmission elements into and out of
2 operation in the transmission system, (2) monitoring and controlling real and
3 reactive power flows; (3) monitoring and controlling voltage levels; and (4)
4 scheduling and operating reactive resources. As with certain other members
5 of the SPP, the Transco will operate its own control area.

6

7 Q. WILL THE SPP/TRANSCO PARTNERSHIP HAVE EXCLUSIVE
8 AUTHORITY FOR MAINTAINING THE SHORT-TERM RELIABILITY
9 OF THE GRID THAT IT OPERATES?

10 A. Yes, the SPP Partnership RTO will be the security coordinator for the region
11 and will have the authority for maintaining the short-term reliability of the SPP
12 Partnership RTO grid. First, as indicated in its RTO application, the SPP will
13 have exclusive authority for receiving, confirming, and implementing all
14 interchange schedules for the the other transmission-owning members of the
15 SPP. The Transco will have the exclusive authority for receiving, confirming,
16 and implementing the interchange schedules that it has with other non-SPP
17 transmission owners. Accordingly, on a combined basis, the SPP Partnership
18 RTO will have exclusive authority for receiving, confirming, and implementing
19 all interchange schedules. Second, as the security coordinator for the region,
20 the SPP RTO will possess the right to order redispatch of any generator if
21 necessary for the reliable operation of the transmission grid. To implement
22 this right, all generators that are currently interconnected to the transmission

1 facilities of the Operating Companies, and all generators that subsequently
2 interconnect, must sign agreements allowing the RTO to redispatch them in
3 emergencies. Third, the Transco will be the entity establishing the
4 transmission facility outage schedule for the facilities owned by the Transco
5 and will have the authority to approve or disapprove all requests for scheduled
6 outages of transmission facilities over which it does not have maintenance
7 responsibilities. The Transco will coordinate its transmission facility outage
8 schedule with the transmission facility outage schedule of the SPP Partnership
9 RTO to ensure that the combined outages can be accommodated within
10 established reliability standards.

11

12 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

13 A. Yes.

SPP PARTNERSHIP RTO MAP



AFFIDAVIT

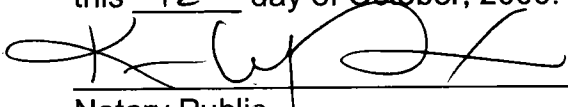
STATE OF LOUISIANA)
)
PARISH OF ORLEANS)

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



Frank F. Gallaher

SWORN AND SUBSCRIBED BEFORE ME,
this 12th day of October, 2000.



Notary Public

My Commission Expires: upon my death