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BEFORE THE

LOUISIANA PUBLIC SERVICE COMMISSION

LA Public Service Commission

**EX PARTE: APPLICATION OF)
ENTERGY LOUISIANA, LLC,)
FOR REVIEW OF THE MANAGEMENT)
OF THE CONSTRUCTION OF LAKE)
CHARLES POWER STATION)**

DOCKET NO. U-_____

DIRECT TESTIMONY

OF

JEROME M. MADDOX

ON BEHALF OF

ENTERGY LOUISIANA, LLC

DECEMBER 2021

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EXHIBIT LIST

- Exhibit JMM-1 Breakdown of Project Costs (on CD) (HSPM)
- Exhibit JMM-2 Electronic Index of Project Transactions (on CD) (HSPM)

1 **I. INTRODUCTION AND QUALIFICATIONS**

2 Q1. PLEASE STATE YOUR NAME, OCCUPATION, AND BUSINESS ADDRESS.

3 A. My name is Jerome M. Maddox. I am currently employed as Manager, Project Controls
4 at Entergy Services, LLC ("ESL"). Prior to October 2016, I was employed as a
5 Manager, Project Controls at Jacobs Engineering. My business address is 639 Loyola
6 Avenue, New Orleans, Louisiana 70113.

7
8 Q2. WHAT ARE YOUR PRINCIPAL RESPONSIBILITIES AS MANAGER, PROJECT
9 CONTROLS?

10 A. My duties in this role, include oversight of capital project cost and forecasts, internal
11 capital project financial reporting, establishment and maintenance of internal controls
12 in accordance with the Sarbanes-Oxley Act, and financial planning, including
13 preparing capital and expense budgets for a number of construction projects, including
14 Entergy Louisiana, LLC's ("ELL" or the "Company") project to construct a combined-
15 cycle gas turbine facility in Westlake, Louisiana, known as the Lake Charles Power
16 Station ("LCPS" or the "Project").

17
18 Q3. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?

19 A. I am submitting this Direct Testimony to the Louisiana Public Service Commission
20 ("Commission") on behalf of the Company.

1 Q4. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND, PROFESSIONAL
2 QUALIFICATIONS, AND EXPERIENCE.

3 A. I hold an undergraduate degree in Construction Management from the University of
4 Louisiana at Monroe and a master's degree in Construction Management from
5 Louisiana State University. I have over 15 years of experience in developing and
6 executing capital projects, including experience with engineering, procurement, and
7 construction ("EPC") contractors and Owner/Operator companies. I have held various
8 project controls and commercial roles on projects ranging in size from less than \$1
9 million to over \$2 billion in total capital.

10

11 Q5. HAVE YOU EVER TESTIFIED BEFORE THE COMMISSION?

12 A. No.

13

14 Q6. PLEASE SUMMARIZE THE PURPOSE OF THE COMPANY'S FILING.

15 A. I understand that the Commission's Order No. U-34283 relating to the Company's
16 decision to undertake construction of LCPS required the Company to submit
17 information to allow the Commission to conduct a prudence review after project
18 completion. The information required for the Commission to conduct a prudence
19 review is contained in the Company's instant filing.

1 Q7. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

2 A. My testimony addresses:

- 3 • The costs incurred by the Company in connection with construction of LCPS;
- 4 • The Company's accounting procedures for costs incurred on construction of LCPS;
- 5 and
- 6 • A third-party evaluation of the LCPS's project governance and controls.

7

8 **II. LCPS COSTS**

9 **A. Amount of LCPS Costs**

10 Q8. WHAT IS THE TOTAL AMOUNT OF PROJECT COSTS THAT ARE BEING
11 SUBMITTED FOR REVIEW IN THIS DOCKET?

12 A. ELL has incurred \$808.7 million in LCPS-related costs, exclusive of transmission and
13 interconnection costs, through October 31, 2021. ELL estimates that it will incur
14 additional costs of \$1.5 million related to work not completed as of October 31, 2021.
15 Thus, the Project estimated costs at completion, exclusive of transmission and
16 interconnection costs, total \$810.2 million. ELL previously completed Project-related
17 transmission upgrades and interconnection work at a cost of \$50.9 million.

18 ELL has incurred \$859.6 million of total LCPS costs through October 31, 2021.
19 ELL estimates that it will incur additional costs of \$1.5 million related to work not
20 completed as of October 31, 2021. Thus, total estimated Project costs at completion
21 total \$861.1 million ("Total Project Costs"). A breakdown of the Total Project Costs
22 is provided on Highly Sensitive Protected Material ("HSPM") Exhibit JMM-1.

1 Q9. WHY HAS THE COMPANY INCLUDED ESTIMATED COSTS IN ITS TOTAL
2 COST AMOUNTS?

3 A. Although LCPS was placed in service in March 2020, work continued beyond March
4 2020 to close out the Project and progress toward Final Acceptance, as defined by the
5 EPC contract. As discussed by Company witness Gary C. Dickens, some additional
6 work and testing remains to be completed before Final Acceptance can occur. The
7 Company has included estimated costs for work that is ongoing, all of which is
8 expected to be completed in the Spring of 2022.

9

10 Q10. MR. DICKENS DESCRIBES INCENTIVES EARNED BY THE EPC
11 CONTRACTOR. DO THE VALUES IN HSPM EXHIBIT JMM-1 INCLUDE
12 INCENTIVES PAID TO THE EPC CONTRACTOR?

13 A. Yes.

14

15 Q11. WHAT CATEGORIES OF COSTS ARE INCLUDED IN THE TOTAL COST
16 AMOUNTS?

17 A. The Project costs are broken down into the following cost categories: (1) EPC Costs,
18 (2) Sales Tax, (3) Other Costs, (4) Owner Contingency, (5) Allowance for Funds Used
19 During Construction ("AFUDC"), and (6) Transmission Upgrade Projects. In addition,
20 the costs shown on HSPM Exhibit JMM-1 are segregated between those costs incurred
21 as of October 31, 2021, and the costs that are estimated to be incurred after that date.

1 Q12. WHAT IS INCLUDED WITHIN THE SIX MAJOR COST CATEGORIES?

2 A. Mr. Dickens discusses what is included in each of the categories in his Direct
3 Testimony.

4

5 Q13. HOW WILL THE COMPANY ACCOUNT FOR ANY PROJECT COSTS THAT
6 ARE ESTIMATED OR NOT YET ACCRUED?

7 A. Any such amounts will be properly recorded on the Company's books and records as
8 capital when they are incurred. Company witness Ryan D. Jones discusses how the
9 Company will capture the Project costs, including costs that are estimated or not yet
10 accrued, in ELL's retail rates.

11

12 **B. Accounting for Project Costs**

13 **1. Project Codes and Scope Statements**

14 Q14. HOW DID THE COMPANY COMPILE AND RECORD THE PROJECT COSTS
15 REFLECTED IN HSPM EXHIBIT JMM-1?

16 A. Consistent with the Company's accounting practices, the Project-related project costs
17 were compiled and recorded on the Company's books and records through the use of
18 specific project codes.

1 Q15. WHAT ARE PROJECT CODES?

2 A. A project code is an alphanumeric code used to capture related costs for a particular
3 task or service. Project codes are used by each Entergy Operating Company ("EOC")¹
4 to track costs. In addition, project codes are used by ESL to track costs to be billed
5 directly or allocated to affiliated companies.
6

7 Q16. HOW IS A PROJECT CODE ESTABLISHED?

8 A. Project codes are established in the Company's accounting systems when management
9 determines there is a need to be able to identify and aggregate costs for a specific
10 project, which may include an aggregation of expenses for a particular purpose or for
11 the creation of a new capital asset. Setting up a project code requires a substantial
12 amount of information. Additionally, the completion of the project code setup process
13 requires multiple approvals, including those from Accounting and Management, to
14 ensure that the project code attributes are appropriate and are not over-spent.
15

16 Q17. WHAT INFORMATION IS REQUIRED IN ORDER FOR A NEW PROJECT CODE
17 TO BE ESTABLISHED?

18 A. The answer depends on the circumstances under which the project code is established.
19 When a project code that will be used by ESL employees is established, a "scope
20 statement" is developed for that project code. The scope statement sets out, in narrative
21 form, a description of the project and the type of work that will be performed under

¹ The five EOCs are Entergy Arkansas, LLC; ELL; Entergy Mississippi, LLC; Entergy New Orleans, LLC; and Entergy Texas, Inc.

1 that project code. The project code scope statement typically describes the overall
2 purpose, the primary activities to be performed, the products or deliverables expected,
3 and a justification of the billing method selected.

4 When project codes that will be used by non-ESL employees are established, a
5 project description is required. The project description may not be as detailed as a
6 scope statement because, in a project that will be used by non-ESL employees, the work
7 typically is performed for a single EOC and, as such, all of the work will be recorded
8 on the books solely of that EOC, rather than being billed to another EOC or allocated
9 among multiple EOCs.

10 Other key information required to establish a project code includes the physical
11 location of the project and the department responsible for the project for which the costs
12 will be incurred. For a capital project, information regarding the following is also
13 required: removal, salvage, additions, project manager, and estimated in-service date.

14
15 Q18. WHAT ARE THE PROJECT CODES THAT CAPTURE COSTS RELATED TO THE
16 PROJECT?

17 A. The following project codes for the Project-related costs were established:

<p align="center">Table 1 Project Code Listing</p>	
Project Code Number	Project Code Description
C6PPTLZ060	A&B Generator 138kV Tie-Lines LCPS
C6PPTSZ069	Breaker Upgrade 69kV Alfol Station
C6PPTSZ074	Breaker Upgrade 138kV Conoco Stn
C6PPTLZ030	C Generator 230kV Tie-Lines LCPS
C6DB874601	INT. LC. 461TRDIST. LOWER DOWN 4.5
C6PPTSZ055	Network Intercon at 230kV Nelson St
C6PPTLZ004	Nelson-Spanish Trail Rebl'd 138kV
C6DB874599	INT., L.C., 432 WE., DIST. LINE PAR
C6PPTSZ070	Breaker Upgrades 230kV Nelson Sub
C6PPTSZ050	Breaker Upgrade at 138kV Nelson Sub
C6PPTSZ000	Mossville 138kV Sub Work
C6DB875151	JOINTU - 462TR Convert 2 sections o
C6PPTLZ033	Mossville to Nelson Rebl'd 138kV
C6DB875152	JOINTU - 462TR 13.2/7.6 Pull in 3 s
C6DB875153	JOINTU - 462TR 13.2/7.6 Bore in 3 s
C6PPTSZ035	NETWORK INTERCON-138KV NELSON STN
C6PPTLZ000	Spanish Trail-Mossville Rebl'd 138kV

1

2 Q19. HOW DID PERSONNEL KNOW TO WHICH PROJECT CODE THEY SHOULD
3 BILL THEIR TIME AND EXPENSES RELATED TO THE PROJECT?

4 A. Each employee is responsible for charging the costs that he or she incurs to the
5 appropriate project code, and thus billing the affiliate(s) receiving the services
6 appropriately. An employee's manager or budget coordinator may assist in
7 determining and communicating the correct project code for a specific cost. While
8 each employee is ultimately responsible for charging costs to the appropriate project
9 code, prior to the recording of a source transaction on an affiliate's books (e.g., time
10 reports and expense reports), the appropriate personnel must review and approve source
11 documentation in accordance with the requirements of Entergy's approval policies. In
12 addition, Entergy's source systems are programmed with certain validation

1 functionality (e.g., validity and compatibility edits for the accounting code input data)
2 and notification procedures to alert the employee when accounting code values,
3 including project codes, are invalid, incompatible, or incomplete.

4 Further, employees are typically instructed how to correctly record time and
5 expenses during on-the-job training within their individual workgroups. Additionally,
6 during budget training as part of the annual budget process, budget
7 coordinators/preparers are educated on the proper way to record transactions. As a
8 further control for ESL employees, ESL Time and Expense Training materials are
9 posted on the Affiliate Accounting and Allocations section of Entergy Corporation's
10 ("Entergy") internal website. All ESL employees are required to acknowledge their
11 review of these training materials on an annual basis. This training stresses the
12 importance of choosing the correct project code and reviews and, among other things,
13 how to determine which project code should be used for specific services.

14
15 Q20. WERE ANY OF THE PROJECT-RELATED CODES USED TO RECORD COSTS
16 RELATED TO ANY NON-PROJECT COSTS?

17 A. As a result of the Company's internal control processes, there should be no non-Project-
18 related costs included in HSPM Exhibit JMM-1.

2. Accounting Approvals

Q21. PLEASE DESCRIBE THE INTERNAL CONTROLS PROCESS USED BY THE COMPANY TO ENSURE PROPER ACCOUNTING FOR PROJECT COSTS.

A. The Company maintains a strong system of internal controls, including the approvals for costs incurred before payments are made to suppliers or when employees record their time and expenses. The system of internal controls is in effect for all Entergy affiliates, including ELL and ESL.

Q22. PLEASE DESCRIBE THE PROCEDURES USED BY THE COMPANY TO ENSURE THAT COSTS BILLED BY CONTRACTORS WERE ACCURATE AND WERE RECORDED PROPERLY IN THE COMPANY'S FINANCIAL RECORDS.

A. The budget process serves as a control to ensure that costs billed by contractors are accurate and are recorded properly in the Company's financial records. Specifically, budget coordinators are directed during budget training to review the project codes used by their departments to ensure that they are appropriate for the services being provided, including the billing method(s) assigned to the project code(s). In addition, the management of each department reviews actual charges on a monthly basis and compares them to budget. This is accomplished through review of the department's cost reports, which provide actual versus budget comparisons in several ways; for example, by project, activity, and resource code.

The process for recording actual invoices begins as invoices are received from vendors. Such invoices are routed to the Cost Control Analysts on the Project Team who enter the invoice into the Company's Asset Suite application ("Asset Suite")

1 unless vendors have directly entered invoices. In either case, the first level of review
2 for accuracy and compliance with commercial terms is performed by a project assigned
3 analyst. This application maintains details of approved contracts, approved vendors,
4 spending against such contracts, approval authority limits, related code block, etc.
5 After the Cost Control Analysts enter invoices, they are routed to the Project Managers
6 who ensure that:

- 7 • Invoices are processed to take advantage of early payment discounts, if any;
- 8 • Adequate funding under the applicable contract is available;
- 9 • Appropriate project milestones under the contract have been achieved;
- 10 • Applicable materials have been received and have passed quality inspections;
- 11 and
- 12 • Tax information on the invoice is appropriately reflected.

13 Should any discrepancies arise, the invoices are held until the discrepancy is cleared
14 with the vendor or through an internal Contract Change Request, as appropriate. Once
15 all is in order, the Project Managers route the invoice through the appropriate members
16 of management for approval in Asset Suite. Required management levels are
17 determined in accordance with the Company's Approval Authority Policy. After the
18 appropriate level managers review and approve the invoice in Asset Suite, the invoice
19 is routed to Accounts Payable where it is processed and paid.

1 Q23. IS THE COMPANY MAKING AVAILABLE DATA FOR THE COMMISSION TO
2 CONDUCT A REVIEW OF PROJECT-RELATED COSTS IF IT SO CHOOSES?

3 A. Yes. The Company will make available all documentation supporting the costs of the
4 Project. Because of the huge volume of this information and, in some cases, the
5 commercially sensitive nature, the Company is not attaching and filing this information
6 as a workpaper. I am, however, attaching as HSPM Exhibit JMM-2 a detailed
7 electronic index in Microsoft Excel® format of the transactions relating to the Project.²
8 This index does not include information regarding the estimated portion of the
9 Company's costs because the transactions underlying those estimated costs had not yet
10 occurred as of October 31, 2021. With this electronic index, a party can sort the data
11 and determine which transactions to audit or review further. The data production
12 process that I am suggesting here should allow the Commission and intervening parties
13 to undertake their own review if they wish. This could work much like a financial audit
14 in which the parties determine a statistically relevant but discrete subset of transactions
15 they wish to review and test for accuracy out of the entire set of transactions. From
16 this index, the parties can submit their selected transactions list to the Company. The
17 Company asks that the parties submit a single joint list for testing. Based on this list,
18 the Company would then pull all documents underlying those selected transactions and
19 make them available to the parties. It is my understanding that this process has been

² It is important to note that HSPM Exhibit JMM-2 only includes costs which were charged to the various project codes associated with the LCPS Project. As such, this exhibit does not include transactions totaling \$7,636.33 which were inadvertently charged to JWLPS project codes. Pursuant to the Stipulated Settlement approved by the Commission in LPSC Order No. U-35584 (8/10/2021), these costs are subject to review in conjunction with the Company's application.

1 Q26. WHAT CONCLUSIONS DID KPMG MAKE FOLLOWING ITS EVALUATION?

2 A. KPMG concluded that the Company had established industry leading or near industry
3 leading practices for good project management, including the areas of organizational
4 structure, schedule, cost, scope change, risk, issues, and document control. The
5 assessment is attached to the testimony of Mr. Dickens as HSPM Exhibit GCD-4.

6

7 Q27. DID THE COMPANY CONDUCT ANY INTERNAL REVIEWS REGARDING
8 PAYMENT OF INVOICES AND ISSUANCE OF CHANGE ORDERS?

9 A. Yes. As I discussed earlier and as discussed in the Direct Testimony of Mr. Dickens,
10 the Company's invoice review procedures ensure that invoice payments are limited to
11 those required by contract – no more, no less. Regarding change orders, Mr. Dickens
12 discusses the process followed to evaluate change orders, with ESC approval being
13 required for all change orders.

14

15 IV. CONCLUSION

16 Q28. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

17 A. Yes, at this time.

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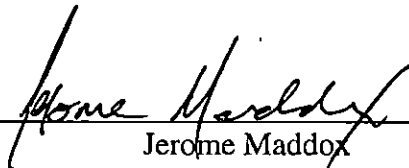
STATE OF TEXAS

LA Public Service Commission

COUNTY OF MONTGOMERY

NOW BEFORE ME, the undersigned authority, personally came and appeared, **Jerome Maddox**, who after being duly sworn by me, did depose and say:

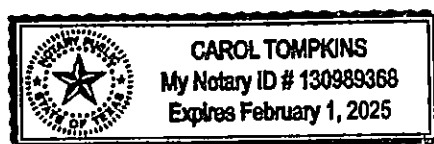
That the above and foregoing is his sworn testimony in this proceeding and that he knows the contents thereof, that the same are true as stated, except as to matters and things, if any, stated on information and belief, and that as to those matters and things, he verily believes them to be true.


Jerome Maddox

SWORN TO AND SUBSCRIBED BEFORE ME
THIS 19th DAY OF November, 2021


NOTARY PUBLIC

My commission expires: February 01, 2025



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EX PARTE: APPLICATION OF)
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CHARLES POWER STATION)

DOCKET NO. U-_____

EXHIBIT JMM-1

BREAKDOWN OF LCPS PROJECT COST

**HIGHLY SENSITIVE
PROTECTED MATERIAL**

INTENTIONALLY OMITTED

DECEMBER 2021

**BEFORE THE
LOUISIANA PUBLIC SERVICE COMMISSION**

**EX PARTE: APPLICATION OF
ENTERGY LOUISIANA, LLC,
FOR REVIEW OF THE MANAGEMENT
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CHARLES POWER STATION**

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DOCKET NO. U-_____

EXHIBIT JMM-2

E-INDEX OF LCPS PROJECT TRANSACTION

**HIGHLY SENSITIVE
PROTECTED MATERIAL**

INTENTIONALLY OMITTED

DECEMBER 2021