



P.O. Box 22964  
Jackson, MS 39225-2964

200 East Capitol Street  
Suite 1400  
Jackson, MS 39201

601.948.0940 *tel*  
601.355.6521 *fax*

[www.horne-llp.com](http://www.horne-llp.com)

September 21, 2009

Ms. Lynn Carlisle  
General Counsel  
Mississippi Public Service Commission  
Woolfolk State Office Building

Dear Lynn,

I wanted to update you on changes that we are encountering with our audit of Entergy's fuel adjustment clauses. In our contract with the commission dated August 21, 2009 we agreed that the audit services would not exceed 5,200 hours at a contract price not to exceed \$780,000. The hours and contract price were based on a typical audit risk profile for companies with similar size and sophistication as Entergy.

I had originally projected a range for our fees based on the different risk profiles that can be encountered during an audit. The low end of the range represents a risk profile that is lower than what is expected for an audit this size and the high end of the range represents a risk profile that is higher than what is expected for an audit this size. That original range for the Entergy audits had a low end of \$585,000 and a high end of \$975,000.

We have observed during our first weeks into the fuel adjustment audits that the risk profile is substantially higher than originally expected. Our auditing standards require us to exercise professional skepticism and manage the audit to reduce audit risk to a low level that is appropriate for expressing an opinion as outlined in the following excerpts from generally accepted auditing standards:

- “Due professional care requires the auditor to exercise *professional skepticism*. Professional skepticism is an attitude that includes a questioning mind and a critical assessment of audit evidence. The auditor uses the knowledge, skill, and ability called for by the profession of public accounting to diligently perform, in good faith and with integrity, the gathering and objective evaluation of evidence. Gathering and objectively evaluating audit evidence requires the auditor to consider the competency and sufficiency of the evidence. Since evidence is gathered and evaluated throughout the audit, professional skepticism should be exercised throughout the audit process. The auditor neither assumes that management is dishonest nor assumes unquestioned honesty. In exercising professional skepticism, the auditor should not be satisfied with less than persuasive evidence because of a belief that management is honest.”

- “The existence of audit risk is recognized in the description of the responsibilities and functions of the independent auditor that states, "Because of the nature of audit evidence and the characteristics of fraud, the auditor is able to obtain reasonable, but not absolute, assurance that material misstatements are detected." Audit risk is the risk that the auditor may unknowingly fail to appropriately modify his or her opinion on financial statements that are materially misstated.”
- “The auditor should perform the audit to reduce audit risk to a low level that is, in the auditor's professional judgment, appropriate for expressing an opinion on the financial statements.”

As we have commenced our on-site work at Entergy, we have encountered an environment that requires that we increase our professional skepticism and exercise a higher level of audit skill to ensure that appropriate audit evidence is gathered during the audit and our audit risk is at a sufficiently low level. Outside counsel for Entergy appear to have a significant interest in the audits that we are performing. We have witnessed an extraordinary level of attorney involvement in every aspect of our process, from meeting with Entergy personnel to sending simple requests for audit evidence such as invoices.

This may very well be the way that Entergy operates their business on a day to day basis but it creates a high level of confusion and information that is not always consistent from one party to the next, and certainly results in a higher level of complexity than would be expected for an audit such as this. For example, in the request we submitted on September 10, 2009 for support of our original sample of 813 ECR rider transactions we received appropriate support for only six of those transactions. This complexity creates a much higher level of audit risk, which can only be mitigated by more involvement of higher level audit personnel. As a result, I have been required to substantially increase the expected involvement of our partners and other high level audit personnel to ensure that the increase in our audit risk is appropriately mitigated so that we can fulfill our duty to the PSC as outlined in our audit contract.

I have evaluated the impact of this change in our risk profile and its impact on the increased involvement of our most experienced audit personnel and have recalculated our price estimate for completing the respective audits. I do not believe at this time that the change in audit risk has increased the amount of hours required to complete the audit, but only that we will be required to utilize more senior audit personnel than is typical with other audit engagements of this size and sophistication.

Ms. Lynn Carlisle  
Mississippi Public Service Commission  
September 21, 2009  
Page 3

My revised estimate states that our audit services will not exceed 5,200 hours with fees not to exceed \$910,000. I propose the use of our billing rates as included in our proposal dated July 21, 2009, which are approved by the Mississippi Professional Services Contract Review Board. I would appreciate the opportunity to discuss this change in scope with you and the commissioners further and appreciate your consideration of this change in scope as it relates to our contract dated August 21, 2009.

Sincerely,

HORNE LLP

A handwritten signature in cursive script that reads "Ann R. Cleland". The signature is written in black ink and is positioned below the typed name.

Ann R. Cleland, CPA, CIA  
Partner