

Docket No. 06-00216

BEFORE THE  
ARKANSAS PUBLIC SERVICE COMMISSION

IN THE MATTER OF THE APPLICATION	)	
OF ENTERGY ARKANSAS, INC. FOR	)	DOCKET NO. 06-101-U
APPROVAL OF CHANGES IN RATES FOR	)	
RETAIL ELECTRIC SERVICE	)	

APPLICATION

COMES ENTERGY ARKANSAS, INC. ("EAI" or the "Company"), and for its Application, respectfully states:

1. This Application is filed pursuant to Ark. Code Ann. §23-4-401 *et seq.* and Arkansas Public Service Commission ("APSC" or the "Commission") Rules of Practice and Procedure 4 and 9.

2. The Company is a corporation organized and operating under the laws of the State of Arkansas, and is a public utility as defined by Ark. Code Ann. §23-1-101 *et seq.* The Company's principal office is located at the Metropolitan National Bank Building, 425 West Capitol Avenue, Little Rock, Arkansas 72201. A copy of the Company's Agreement of Consolidation of Merger (Articles of Incorporation) is on file with the APSC and is hereby incorporated by reference.

3. The Company owns a complete electric system, more specific descriptions of which, including the costs thereof, are already on file with the Commission in various certification dockets and in annual reports filed by the Company with the Commission. The Company's books and records are kept in

accordance with the Uniform System of Accounts, pursuant to the rules and regulations of the Commission and of the Federal Energy Regulatory Commission ("FERC"). All utility plant accounts are stated at original cost.

4. The Company is engaged in the business of generating, transmitting, and distributing electrical power and energy in Arkansas. As of December 31, 2005, the Company provided electrical service at retail, subject to the jurisdiction of the Commission, to a total of approximately 670,000 customers.

5. The Company is seeking an increase in revenue to recover a retail revenue deficiency of \$150.4 million in base rates. The base rate revenue requirement of \$1,054 million could increase depending on resolution of the following issues. First, fuel and purchased energy expenses currently are recovered separately from base rates through EAI's Energy Cost Recovery Rider ("Rider ECR"). However, Rider ECR is the subject of an investigative proceeding in APSC Docket Nos. 05-116-U and No. 06-055-U, and the Commission is considering termination of Rider ECR prospectively. EAI strongly supports retention of Rider ECR because recovery of volatile fuel and purchased energy expenses through an automatic exact recovery rider is preferable to recovery of fuel and purchased energy expenses in base rates. If Rider ECR were terminated lawfully and not replaced by another automatic exact recovery rider, and the Commission directed that fuel and purchased energy expenses be included in base rates, then EAI seeks approval to include \$369 million in base rates for such expenses. Second, in its Opinion No. 480 and Opinion No. 480-A, dated June 1, 2005, and December 19, 2005, respectively, in Docket No.

EL01-88-001 (the “FERC Decision”),<sup>1</sup> the FERC imposed a remedy to ensure “rough equalization” of production costs among the Entergy Operating Companies.<sup>2</sup> EAI proposes to recover costs imposed on it by the FERC Decision through Rider ECR or, if Rider ECR were to be terminated lawfully by the APSC, through the Production Cost Allocation Rider (“Rider PCA”), proposed by EAI herein. If the APSC also denies recovery of these FERC costs through Rider PCA and directs that they be recovered in base rates, then EAI seeks to include such costs in base rates in the amount of \$265 million. EAI strongly supports recovery of the FERC costs through a separate rider. Should the Commission conclude that separate riders for fuel and purchased energy and for the FERC costs should not be used, the total revenue requirement for base rates will be \$1,688 million.

6. This Application presents the results of the Company’s cost-of-service study based upon a test year that is the period of six months historical ending December 31, 2005 and six months projected ending June 30, 2006 (“Test Year”). The Company’s last increase in base rates was in 1985. (EAI’s last change in base rates was based upon 1995 test year data and resulted in a \$17 million reduction in base rates.) Since 1995, EAI has made significant investment in its generation, transmission, distribution and customer services facilities used to provide service to its retail customers; in addition, the general cost of operations and maintenance has increased. In light of these facts, the Company is proposing to modify its existing rates and update its rate structure to meet its customers needs and achieve a reasonable rate of return. Additionally, this rate application must

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<sup>1</sup> Opinion No. 480, 111 FERC ¶ 61,311, *aff’d* Opinion No. 480-A, 113 FERC ¶ 61,282 (2005).

<sup>2</sup> The Entergy Operating Companies include EAI; Entergy Gulf States, Inc.; Entergy Louisiana, LLC (formerly Entergy Louisiana, Inc.); Entergy Mississippi, Inc.; and Entergy New Orleans, Inc.

comprehend the possibility that the Commission will direct that the Company's fuel and purchased energy expenses and costs imposed by the FERC Decision be included in base rates.

7. The proposals contained in this rate change application will allow the Company to continue to provide electricity and electric service to meet its customers' needs and to allow the Company's investors a reasonable opportunity to recover prudently incurred costs and a fair opportunity to earn a reasonable return on investment. The Company's proposals include, but are not limited, to:

- a. EAI proposes to acquire new generating capacity because it does not own or control enough modern, load-following capacity to meet its customers' needs. The Company expects to complete the transaction to acquire capacity – either by purchasing a Combined Cycle Combustion Turbine or entering into a long-term Power Purchase Agreement – before the completion of this case and requests that the cost of this capacity be reflected in the Company's base rates. Or, in the alternative, the cost of this capacity would be recovered through the proposed Capacity Management Rider ("Rider CM") if the transaction for some reason is not concluded by the end of the pro forma period.
- b. With the development of the wholesale generating market, purchased capacity has become a significant supply source for EAI in addition to its owned resources and the capacity reserves that EAI can draw upon from the other Operating Companies through the Entergy System Agreement. The amount of capacity that is needed and its price can fluctuate significantly over time.

Therefore, the Company proposes Rider CM because it should be permitted to recover the cost of purchased capacity through a rate mechanism that is adjusted more frequently than are base rates.

- c. To address the need for more efficient use of electricity, EAI proposes to implement a program to provide weatherization services to its residential customers by contracting with the Community Action Agencies operating in EAI's service territory. EAI believes the weatherization program is not a "promotional practice" under the Commission's Rules and Regulations Governing Promotional Practices of Electric and Gas Public Utilities. In the alternative, should the Commission find that the proposed weatherization program meets the definition of a "promotional practice" under such rules, then the Company requests an exemption from them pursuant to Rule 1.03 (b) of the APSC Rules of Practice and Procedure. Such an exemption would be in the public interest and for good cause based on the justification for the weatherization program as set forth in the Direct Testimony of Paul R. Ford in this Docket and based on the record made by the Commission in APSC Docket No. 06-004-U.
- d. EAI proposes to retain an automatic adjustment tariff, Rider ECR, for the recovery of fuel and purchased energy expenses. However, should the Commission direct that these expenses be recovered through base rates, the Company provides a pro forma adjustment to recognize fuel and purchased energy expenses for the case pro forma period.

- e. The Company provides a pro forma adjustment to recognize the projected payments that EAI is expected to be required to make as a result of the FERC Decision resolving the Entergy System Agreement litigation in the event the Commission terminates Rider ECR and does not approve recovery of those costs through Rider PCA and instead directs that they be recovered through base rates.
  - f. The Company will address the assignment of existing EAI capacity as proposed by EAI witness Andrew P. Frits in Docket No. 03-028-U and deferred to a later proceeding as ordered by the Commission.
  - g. EAI will describe proposed changes to the Company's lighting services and revisions to the extension of facilities policy and underground policy, and other related tariff changes, including elimination of the Optional Irrigation Control Service (M-25) schedule.
8. Further, the Company is requesting that the Commission make a specific finding that a rate of return on common equity for the Company of 11.25 percent would be just and reasonable.
9. The Company's filing complies with Rule 9 of the APSC's Rules of Practice and Procedure. Attached hereto as Exhibit A, and made a part hereof, are the following Minimum Filing Requirement ("MFR") schedules required of electric and/or investor-owned utilities by Rule 9: A-1, B-1 through B-10, C-1 through C-12, D-1(a), D-2 through D-7, E-1 through E-10, E-13, E-15 through E-17, F-1, G-1 through G-5(a), H-1 through H-4(a) and H-5. These schedules

reflect a retail base rate revenue requirement that includes the current base rate revenue deficiency, exclusive of fuel and purchased energy expenses and costs imposed on EAI by the FERC Decision and other costs presently recovered through separate riders.

10. The Company hereby gives notice that its proposed revised rate schedules are attached for filing and included as Schedule I of Exhibit A, which proposed rate schedules will supersede all of the Company's existing rate schedules. The Company proposes to make these revised rate schedules effective as of September 14, 2006.

11. Rider ECR, approved in Docket No. 96-360-U and modified in Docket No. 03-028-U and continuously in effect since then, is designed to recover, on a dollar-for-dollar basis, the Company's cost of fuel and purchased power. As noted previously, Rider ECR is presently the subject of an investigative proceeding in APSC Consolidated Docket Nos. 05-116-U and No. 06-055-U. As noted previously, proposed Rider PCA is designed to recover, as an alternative to recovery through Rider ECR and also on a dollar-for-dollar basis, the Company's costs incurred pursuant to the FERC Decision.

12. The following Rate Schedules are not being refilled and are being withdrawn: Rate Schedule No. 9, Large Power Service Time of Use; Rate Schedule No. 33, Special Rate Contract Service Rider; Rate Schedule 36, Optional Irrigation Control Service (M25); Rate Schedule No. 44, Economic Development Rider; and Rate Schedule No. 47, Transition Cost Rider.

13. EAI requests that the following individuals be included on the service list in this proceeding:

Steven K. Strickland, Vice President  
Regulatory Affairs - Arkansas  
Entergy Arkansas, Inc.  
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Assistant General Counsel  
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14. Rule 3.03 of the Commission's Rules of Practice and Procedure requires a notice to be published when a general rate increase is sought. The Company will cause such notice to be published pursuant to Rule 3.03.

15. Also submitted for filing in support of this Application are the testimonies of Company witnesses Hugh T. McDonald, J. David Wright, Phillip B. Gillam, Gordon D. Meyer, Greg J. Grillo, Roger A. Morin, Robert R. Cooper, Steven M. Fetter, Roger Q Mills, Michael J. Goin, Michael M. Schnitzer, and Paul R. Ford who explain the Company's proposals in considerable detail.

WHEREFORE, Entergy Arkansas, Inc. requests that the Commission:

(1) allow the proposed new rate schedules identified and filed herein as Schedule I to become effective on September 14, 2006, with fuel and purchased



energy expenses and costs imposed on EAI by the FERC Decision to be recovered through separate riders;

(2) fix and establish 11.25 percent as a reasonable rate of return on common equity;

(3) approve any and all accounting and other modifications necessary to allow the Company to implement its proposals herein; and

(4) for all other proper relief to which the Company may be entitled.

Or, alternatively, the Company requests:

(1) the Commission set this matter for hearing, at which time the Company may be given an opportunity to present additional evidence in support of its Application; and

(2) after due notice and hearing, an order be issued authorizing the Company to modify its rates and implement its proposals and charges as set forth in this Application and testimony.

Dated this 15th day of August 2006.

Respectfully submitted,

ENTERGY ARKANSAS, INC.

By:

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Steven K. Strickland  
Vice President,  
Regulatory Affairs - Arkansas

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EAI EXHIBIT A

MINIMUM FILING REQUIREMENTS

PER APSC RPP SECTION 9