

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)	

DIRECT TESTIMONY

OF

J. DAVID WRIGHT

DIRECTOR, REGULATORY ACCOUNTING

ENTERGY SERVICES, INC.

ON BEHALF OF

ENTERGY ARKANSAS, INC.

AUGUST 15, 2006

1 **I. BACKGROUND AND INTRODUCTION**

2 Q. PLEASE STATE YOUR NAME, TITLE AND BUSINESS ADDRESS.

3 A. My name is J. David Wright. My business address is 425 West Capitol,
4 Little Rock, Arkansas 72201. I am employed by Entergy Services, Inc.
5 ("ESI")¹ as Director, Regulatory Accounting.

6
7 Q. ON WHOSE BEHALF ARE YOU TESTIFYING?

8 A. I am testifying on behalf of Entergy Arkansas, Inc. ("EAI" or the
9 "Company").

10
11 Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND
12 PROFESSIONAL WORK EXPERIENCE.

13 A. My education, professional and work experience is contained in EAI
14 Exhibit JDW-1.

15
16 Q. PLEASE DESCRIBE YOUR CURRENT RESPONSIBILITIES.

17 A. As Director, Regulatory Accounting, I am responsible for preparing
18 regulatory accounting data for the Entergy Operating Companies.² This
19 includes the preparation of accounting and financial data used in making

¹ ESI is a subsidiary of Entergy Corporation that provides technical and administrative services to all the Entergy Operating Companies.

² The Entergy Operating Companies include Entergy Arkansas, Inc.; Entergy Gulf States, Inc.; Entergy Louisiana, LLC (formerly Entergy Louisiana, Inc.); Entergy Mississippi, Inc.; and Entergy New Orleans, Inc.

1 rate filings and the preparation and filing of regulatory accounting
2 testimony.

3

4 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

5 A. My Direct Testimony in this Docket will support the test year financial
6 information except for the development of retail rate revenues. The
7 financial information is for the test period of 12-months ended June 30,
8 2006, as contained in the Company's minimum filing requirements. This
9 period reflects actual per book amounts for the six months ended
10 December 31, 2005, and projected amounts for the six months ended
11 June 30, 2006. I will also address certain test period adjustments, and
12 the capital structure and embedded cost of capital calculations.

13

14 **II. OVERVIEW OF ACCOUNTING SYSTEM**

15 Q. PLEASE DESCRIBE THE SYSTEM OF ACCOUNTS USED IN
16 MAINTAINING THE COMPANY'S BOOKS AND RECORDS.

17 A. The Company complies with the Uniform System of Accounts as
18 prescribed by the Federal Energy Regulatory Commission ("FERC"). The
19 Company is also required by the Financial Accounting Standards Board
20 ("FASB") and the Securities and Exchange Commission to follow
21 Generally Accepted Accounting Principles ("GAAP").

22

1 Q. WHAT STEPS ARE TAKEN TO ASSURE THAT THE ACCOUNTS ARE
2 KEPT IN THE PROPER MANNER?

3 A. The accounting staff is required to be thoroughly knowledgeable with the
4 requirements of the Uniform System of Accounts. The Company's internal
5 audit staff, as well as auditors from external groups, such as the
6 independent accounting firm of Deloitte & Touche LLP and the FERC,
7 periodically review our accounting records to ensure that the records
8 conform with GAAP and the prescribed system of accounts.

9

10 Q. WHAT REPRESENTATION DO YOU MAKE TO THE ARKANSAS
11 PUBLIC SERVICE COMMISSION ("APSC" OR THE "COMMISSION") AS
12 TO THE AMOUNTS IN THE COMPANY'S ACCOUNTS IN THIS
13 PROCEEDING?

14 A. The financial information supporting this filing, excluding retail rate
15 revenues, was compiled under my direction and control. To the best of
16 my knowledge, information and belief, the per book financial information
17 included in this filing was taken from the Company's books and records
18 and the projected financial information was developed from the
19 Company's forecasts prepared in the regular course of business and/or
20 trended from the actual per book amounts, and presents fairly the rate
21 base of the Company on the date indicated and the results of its
22 operations for the period indicated.

23

1 **III. PRO FORMA AND ACCOUNTING ADJUSTMENTS**

2 Q. WHAT ADJUSTMENTS THAT WERE MADE IN THE DETERMINATION
3 OF THE PROJECTED ADJUSTED JUNE 30, 2006 RATE BASE AND
4 NET OPERATING INCOME ARE YOU SPONSORING?

5 A. I am sponsoring Adjustments 2 through 18, 20 and 21 as shown in the
6 workpapers to the Direct Testimony of Mr. Phillip B. Gillam. Adjustment 1
7 – Revenue, Fuel & Purchased Energy, the adjustment to test year
8 revenue, fuel and purchased power, and Adjustment 19 Retail /
9 Wholesale Split after Adjustments are being sponsored by Mr. Gillam.

10
11 Q. PLEASE EXPLAIN ADJUSTMENTS 2 THROUGH 18, 20 and 21.

12 A. Adjustment 2 – Reclassification is an adjustment to rate base and
13 expenses associated with eliminating the White Bluff Steam Electric
14 Station and Independence Steam Electric Station (“ISES”) Unit 1 co-
15 owners’ share of North Antelope Coal Mining Equipment, accumulated
16 depreciation associated with Plant Held for Future Use, and reclassifying
17 ISES Synchronization.

18 Adjustment 3 – Fuel Inventory is an adjustment to coal fuel
19 inventory to a 45-day burn level. A 45-day burn level was used in Docket
20 96-360-U as recommended by the APSC General Staff as typical for use
21 in determining working capital requirements.

22 Adjustment 4 – Investment in System Fuels, Inc. (“SFI”)³ reflects
23 the reclassification of interest income from SFI from below-the-line to

³ SFI is an affiliate of EAI that procures fuel on EAI’s behalf.

1 operating revenues and the inclusion of the investment in SFI in rate
2 base.

3 Adjustment 5 – Decommissioning is an adjustment to eliminate the
4 effects of Decommissioning, Asset Retirement Obligations, and Accretion
5 Expense from rate base and expenses.

6 Adjustment 6 – Miscellaneous Adjustments are adjustments to
7 revenue and expenses related to Provision for Rate Refund, Regulatory
8 Debits and Credits, Hurricane Mutual Assistance and Loaned Labor,
9 Transmission ITC Reserve, Cash Point Bankruptcy Reserve, Severance
10 Plan Write-off, Nuclear Maintenance Outage, Radwaste Credit, Blytheville
11 Removal Costs, Postage Increase, Weatherization, and ESI Interest
12 Expense.

13 Adjustment 7 – Income Taxes adjusts current and deferred income
14 tax, including tax elimination for items not appropriate for ratemaking
15 purposes, other tax normalizations and adjustments for prior periods.

16 Adjustment 8 – Removal of Grand Gulf is an adjustment to remove
17 all demand related expenses for purchased power from the Grand Gulf
18 Nuclear Station.

19 Adjustment 9 – Entergy Technology Company (“ETC”) Revenues is
20 an adjustment to Miscellaneous Revenues for Imputed Revenues
21 associated with ETC.

22 Adjustment 10 – Working Capital adds to rate base the 13-month
23 average balance of certain asset accounts. Reflected in the embedded
24 cost of capital calculation are the 13-month average balances of certain
25 liability accounts at a zero cost.

1 Adjustment 11 – Storm Damage is an adjustment to the Storm
2 Damage Reserve Accruals Expense based on a 10-year average of
3 changes to the storm reserve.

4 Adjustment 12 – Interest Synchronization is an adjustment that
5 synchronizes test year Interest Expense with adjusted rate base and the
6 Embedded Long-term Debt Rate in the cost of capital.

7 Adjustment 13 – Annualized Depreciation Expense is an
8 adjustment to Depreciation Expense that annualizes depreciation
9 expense based on the test year end Plant-in-Service balances.

10 Adjustment 14 – Plant Transfers recognizes the additions to and
11 retirements of plant-in-service related changes in Accumulated Provision
12 for Depreciation and Depreciation Expense projected to occur between
13 the test year June 30, 2006 and June 30, 2007.

14 Adjustment 15 – Payroll is an adjustment to O&M Payroll, Benefits
15 and Taxes for known and measurable changes in wage increases and the
16 change in employee levels.

17 Adjustment 16 – Independent Coordinator of Transmission (“ICT”)
18 system adjustment adds the estimated O&M expense to EAI for its portion
19 of the ICT.

20 Adjustment 17 – MSS-1 Reserve and MSS-2 Transmission
21 Equalization is an adjustment to revenue and O&M expenses to annualize
22 System Agreement Service Schedules MSS-1 and MSS-2 payments and

1 receipts based on the latest actual levels of MSS-1 and MSS-2 payments
2 and receipts.⁴

3 Adjustment 18 – Pension / Other Post-Retirement Employee
4 Benefits (“OPEB”) adjusts O&M Expenses in FERC Account 926 due to
5 changes associated with FAS 106 and Pension Expense.

6 Adjustment 20 – Capacity Acquisition is an adjustment to reflect the
7 acquisition of new generating capacity as a result of the Fall 2005
8 Request for Proposal. The adjustment includes capital costs, associated
9 operating costs, the impact of this purchase on MSS-1, and adjusted test
10 year Purchased Power Expenses.

11 Adjustment 21 – Broadband over Powerlines is an adjustment to
12 rate base and expenses associated with the investment in the initial
13 development of broadband over powerlines. The estimated in service
14 date is June 2007 and the investment is being amortized over 5 years.

15

16 **IV. EMBEDDED COST OF CAPITAL**

17 Q. ARE YOU SPONSORING ANY EXHIBITS SUPPORTING THE
18 EMBEDDED COST OF CAPITAL CALCULATIONS?

19 A. Yes, EAI Exhibit JDW-2 includes the embedded costs of interest bearing
20 capital and preferred stock, along with the projected capital structure as of
21 June 30, 2007. The interest bearing capital amounts have been adjusted

⁴ MSS-1 and MSS-2 are two service schedules which are part of the Entergy System Agreement (“System Agreement”). The System Agreement is a FERC approved rate schedule and contract entered into among ESI and the Operating Companies. Service Schedules MSS-1 and MSS-2 address reserve and transmission equalization, respectively.

1 to reflect known and measurable changes in long-term debt and preferred
2 stock.

3

4 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

5 A. Yes, it does.

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EAI EXHIBIT JDW-1

EDUCATIONAL, PROFESSIONAL AND
WORK EXPERIENCE OF J. DAVID WRIGHT

1 EDUCATIONAL AND PROFESSIONAL BACKGROUND OF
2 J. DAVID WRIGHT

3
4 I graduated in 1976 from the University of Central Arkansas at Conway,
5 Arkansas with a Bachelor of Business Administration degree in accounting. In
6 May 1976 I began four years of employment with a local CPA firm in Little Rock.
7 I performed audit and tax work at this firm and left in 1980 as a senior
8 accountant. In 1978 I became a Certified Public Accountant. I began work in
9 the Entergy System with Arkansas Power & Light Company in 1980 and have
10 held various technical and supervisory positions including accountant, senior
11 accountant, accounting supervisor, Manager, Taxes and Special Studies, and
12 Manager, Regulatory Accounting and Tax. My job duties in all of these
13 assignments included preparing accounting data for rate filings, reviewing
14 testimony on accounting issues and drafting testimony on accounting issues in
15 various rate proceedings. I was named Manager, Regulatory Accounting for
16 Entergy Services, Inc. in January 1993, and have been in my present position as
17 Director, Regulatory Accounting, since October 1998. I am a member of the
18 Arkansas Society of Certified Public Accountants and the American Institute of
19 Certified Public Accountants.

20 I am responsible for preparing regulatory accounting data for the
21 operating companies of Entergy Corporation. This includes the preparation of
22 accounting and financial data used in making rate filings and the preparation
23 and filing of regulatory accounting testimony.

1 I have provided testimony as an expert accounting witness in the
2 following Dockets:

3
4 Arkansas Public Service Commission

5 Docket No. 92-160-U

6 Docket No. 94-439-U

7 Docket No. 96-360-U

8 Docket No. 99-249-U

9 Docket No. 00-383-U

10 Docket No. 01-056-U

11 Docket No. 01-084-U

12
13 Louisiana Public Service Commission

14 Docket No. U-19904-C

15 Docket No. U-19904-D

16 Docket No. U-20181

17 Docket No. U-20925

18 Docket No. U-21485

19 Docket No. U-22084

20 Docket No. U-22137

21 Docket No. U-22138

22 Docket No. U-22092

23 Docket No. U-22491

24 Docket No. U-23358

25 Docket No. U-24182

26 Docket No. U-24993

1 Docket No. U-25460
2 Consolidated Dockets No. U-21453, U-20925,
3 And U-22092 (Subpart B)
4 Docket No. U-25687
5 Docket No. U-26527
6 Docket No. U-29203
7

8 Council of the City of New Orleans

9 Docket No. UD-92-2A
10 Docket No. UD-92-2B
11 Docket No. UD-97-1
12 Docket No. UD-99-1
13 Docket No. UD-01-04
14

15 Mississippi Public Service Commission

16 Docket No. 93-UA-0301
17 Docket No. 94-UN-0228
18 Docket No. 96-UN-0351
19 Docket No. 96-UA-0389
20 Docket No. 01-UA-59
21 Docket No. 02-UN-0526
22 Docket No. 05-UN-0721
23 Docket No. 06-UA-82

1 Public Utility Commission of Texas

2 Docket No. U-12852

3 Docket No. 15102

4 Docket No. 15489

5 Docket No. 16705

6 Docket No. 20150

7 Docket No. 22344

8 Docket No. 22356

9 Docket No. U-25460

10 Docket No. 31315

11 Docket No. 31544

12 Docket No. 32003

13 Docket No. 32907

14

15 Federal Energy Regulatory Commission

16 Docket No. ER-95-1042-000

17 Docket No. RT01-75

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EAI EXHIBIT JDW-2

COST OF CAPITAL

ENTERGY ARKANSAS, INC.
COST OF CAPITAL FOR COST OF SERVICE
PROJECTED AS OF 6/30/07

<u>LINE</u> <u>NO</u>	<u>DESCRIPTION</u>	(A) CAPITAL AMOUNT (\$)	(B) CAPITAL RATIO	(C) COST RATE	(D) EMBEDDED COST OF CAPITAL
1	Interest Bearing Capital	2,352,412,043	59.16%	3.3787%	2.00%
2	Preferred Equity	117,225,369	2.95%	5.9899%	0.18%
3	Common Equity	<u>1,506,379,500</u>	<u>37.89%</u>	<u>11.2500%</u>	<u>4.26%</u>
4	TOTAL	<u><u>3,976,016,912</u></u>	<u><u>100.00%</u></u>	N/A	<u><u>6.44%</u></u>

CERTIFICATE OF SERVICE

I, Steven K. Strickland, do hereby certify that a copy of the foregoing has been served upon all parties of record this 15th day of August 2006.

/S/
Steven K. Strickland