



Entergy Arkansas, Inc.
Regulatory Affairs
425 West Capitol Avenue
P. O. Box 551
Little Rock, AR 72203-0551
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VIA OVERNIGHT MAIL

December 3, 2008

Ms. Darlene Standley
Chief, Utility Division
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243-0505

Re: Tennessee Regulatory Authority (TRA) Docket No. 2008-00201
Entergy Arkansas, Inc.'s (EAI) Proposed Storm Damage Rider
(Rider SDR)

REC'D
2008 DEC -5 PM 1:35
T.R.A. U.R.A. PROPOSED STORM DAMAGE RIDER

Dear Ms. Standley:

In followup to letter dated October 16, attached are an original and 13 copies of the following documents filed in the proceeding before the Arkansas Public Service Commission (APSC) in APSC Docket No. 08-149-U:

- Direct Testimony of APSC Staff witness Alice Wright filed November 12, 2008
- Direct Testimony of William B. Marcus on behalf of the Arkansas Attorney General filed November 12, 2008
- Rebuttal Testimony of EAI witness Steven K. Strickland filed November 26, 2008
- Joint Motion to Approve Stipulation and Settlement Agreement filed by the APSC General Staff, the Arkansas Attorney General (AG), and EAI along with supporting testimonies of the APSC General Staff, the AG and EAI filed December 3, 2008

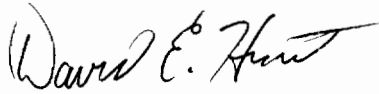
The public hearing is presently scheduled for December 5 and EAI has requested a final order no later than December 23 to allow it to implement the proposed Rider SDR with the first billing cycle of January 2009.

We will forward a copy of the final order as soon as it is issued in that Docket to complete EAI's request pending before the TRA. If the APSC order is issued after the TRA's next conference scheduled for December 15, we will also provide tariff sheets bearing the revised requested effective date.

Ms. Darlene Standley
Page 2
December 3, 2008

Should you have any questions concerning this filing, please call me at (501) 377-4338.

Sincerely,

A handwritten signature in black ink, reading "David E. Hunt". The signature is written in a cursive style with a large, stylized "D" and "H".

David E. Hunt
Manager, Regulatory Affairs

Attachments

ARIZONA PUBLIC SERVICE COMMISSION
NOV 12 11 04 AM '08

BEFORE THE
ARKANSAS PUBLIC SERVICE COMMISSION

FILED

IN THE MATTER OF THE JOINT PETITION OF)
ENTERGY ARKANSAS, INC. FOR AN)
ACCOUNTING ORDER AUTHORIZING)
ESTABLISHMENT OF A REGULATORY ASSET)
AND STORM DAMAGE RIDER)

DOCKET NO. 08-149-U

DIRECT TESTIMONY

OF

ALICE D. WRIGHT
DIRECTOR OF COST ALLOCATION AND RATE DESIGN

ON BEHALF OF THE GENERAL STAFF OF THE
ARKANSAS PUBLIC SERVICE COMMISSION

NOVEMBER 12, 2008

INTRODUCTION

1

2 **Q. Will you please state your name and business address?**

3 A. My name is Alice D. Wright and my business address is P.O. Box 400, Little
4 Rock, Arkansas 72203-0400.

5 **Q. By whom are you employed and in what capacity?**

6 A. I am employed by the Arkansas Public Service Commission (APSC or
7 Commission) General Staff (Staff) as the Director of the Cost Allocation and Rate
8 Design Section.

9 **Q. Please describe your qualifications and background.**

10 A. I joined the Staff as an Auditor in 1995, and was promoted to the position of
11 Audit Supervisor in the Electric Section in 1996. In addition to providing
12 supervisory support to the Manager of the Electric Section, my duties included
13 analyzing electric utility company filings, developing positions on accounting-
14 related issues, and presenting those positions when necessary in written and oral
15 testimony before the Commission. I was promoted to Manager of the Electric
16 Section in July 2000 and assumed responsibility for developing Staff's position
17 on electric utility policy, cost allocation, rate design and other ratemaking issues;
18 assisting the Director of Competitive Services in developing Staff's position on
19 electric deregulation issues; and serving as Staff Project Manager in various cases.
20 In 2004, my responsibilities were expanded to include developing Staff's position
21 on gas and water utility cost allocation and rate design issues. I assumed the
22 position of Manager of Cost Allocation and Rate Design in 2005 and was
23 subsequently promoted to my current position. As the Director of Cost Allocation
24 and Rate Design, I direct and oversee Staff's investigation and analysis of cost

ENTERGY ARKANSAS, INC.
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DIRECT TESTIMONY OF ALICE D. WRIGHT -2-

1 allocation and rate design issues for electric, gas, and water jurisdictional utilities;
2 serve as Staff Project Manager in various cases and assist in the development of
3 Staff's positions in other cases; and serve as an expert witness on various cost
4 allocation, rate design, revenue requirement, policy, and ratemaking issues. Prior
5 to joining Staff, my work experience included positions as a business analyst for a
6 major oil and gas exploration corporation and as an Instructor of Accounting for
7 the University of Central Arkansas.

8 My educational qualifications include a Bachelor of Science in
9 Accounting from the University of Houston-Clear Lake and a Master of Business
10 Administration from the University of Central Arkansas. I am a Certified Public
11 Accountant licensed to practice in the State of Arkansas. I am also a member of
12 the American Institute of Certified Public Accountants. Since joining the Staff, I
13 have attended various conferences and seminars pertaining to utility related
14 issues, including the Annual Regulatory Studies Program sponsored by the
15 National Association of Regulatory Utility Commissioners.

16 **Q. Have you previously filed testimony before the APSC?**

17 **A.** Yes, I have previously presented testimony and exhibits before this Commission
18 addressing various accounting, revenue requirement, cost allocation, rate design,
19 and other rate-related and policy matters. More specifically related to the
20 recovery of storm costs, I served as the project manager and filed testimony in
21 Docket No. 01-084-U, Entergy Arkansas Inc.'s (EAI or Company) request for
22 approval of a storm recovery rider, and Docket No. 01-296-U, EAI's request for
23 approval to use the Transition Cost Account Funds to pay for its 2000/2001 ice
24 storm costs. Also, as a member of Staff's management team, I assisted in the

1 development of Staff's position regarding the recovery of storm costs in Docket
2 No. 06-101-U, EAI's most recent rate case. I also served as the project manager
3 for Docket No. 08-091-U, a joint application filed by the investor-owned electric
4 companies for approval of storm cost accounting and recovery procedures and
5 Docket No. 08-064-U, The Empire District Electric Company's (Empire) request
6 for approval to defer extraordinary storm costs.

7 **PURPOSE OF TESTIMONY**

8 **Q. What is the purpose of your testimony?**

9 A. My testimony addresses and presents my recommendations regarding EAI's
10 request for Commission authorization to: 1) defer, as a regulatory asset, the storm
11 restoration expenses incurred by the Company during the calendar year 2008 that
12 are in excess of the "normal" storm expense amount used in the development of
13 the Company's currently approved base rates (incremental storm expenses), and
14 2) implement a new rate mechanism (Rider SDR) which is designed to recover
15 from ratepayers, over a twelve-month period, the incremental storm expenses plus
16 carrying charges accrued on the balance of the incremental storm expenses. I will
17 also address the Company's proposal to use the Regulatory Earnings Review
18 Tariff (RERT) approved in Docket No. 96-360-U as the basis for conducting an
19 analysis of its 2008 earnings.

20 **SUMMARY OF RECOMMENDATIONS**

21 **Q. Please summarize your recommendations.**

22 A. Given the clearly unique circumstances of the Company during 2008, including:
23 1) the frequency and unusual nature of the storms experienced in the Company's

ENTERGY ARKANSAS, INC.
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1 service territory during the first nine months of 2008,¹ 2) the magnitude of the
2 storm expenses incurred by the Company during the first nine months of 2008,
3 approximately \$40.7 million, 3) the magnitude of the incremental storm expenses
4 incurred by the Company during the first nine months of 2008, approximately
5 \$26.3 million which is significantly greater than the normal, ongoing level
6 included in EAI's rates, 4) the proximity of the Company's last rate case and the
7 implementation of the resulting rates² coupled with the earnings test proposed by
8 the Company, and 5) the absence of a pending rate case for the Company in which
9 the incremental storm expenses could be addressed, Staff does not object to EAI's
10 request, subject to the following modifications:

- 11 • The incremental storm expenses should be recorded in Federal Energy
12 Regulatory Commission (FERC) account 186, Miscellaneous Deferred
13 Debits rather than FERC account 182.3, Other Regulatory Assets;
14
- 15 • Rider SDR should be revised to reflect the removal of the provisions
16 which provide for the application of carrying charges to the balance of the
17 deferred storm expenses;
18
- 19 • Rider SDR should be revised to extend the deadline for the completion of
20 Staff's and Intervenor's review of the storm costs to June 30, 2009;
21
- 22 • Rider SDR should be revised to reflect these deadlines for the earnings
23 review: the filing should be made by EAI on or before April 1, 2009;
24 Staff's and Intervenor's review of the filing should be completed by June
25 30, 2009; the parties should attempt to reach a resolution on any disputed
26 issues by July 15, 2009; if necessary, testimony of Company, Staff, and
27 Intervenor should be filed by July 31, 2009; and, a Commission order
28 should be issued by August 15, 2009;
29
- 30 • The proposed RERT procedures should be further modified to reflect the
31 use of average rate base rather than year-end rate base, and the

¹ Company witness S. Brady Aldy states in his Direct Testimony that the Company has experienced a "variety of weather events during 2008 including high winds, tornados, ice and snow, and hurricanes. (See Aldy's Direct Testimony, pages 4-5.)

² Because the base rates resulting from the Company's most recent rate case, Docket No. 06-101-U, became effective on June 15, 2007, 2008 will be the first full calendar year in which the new rates will have been in effect.

1 development of the Arkansas jurisdictional revenue requirement based on
2 the functional allocation cost allocation factors, as opposed to the rate base
3 allocation factor; and
4

- 5 • The proposed RERT procedures should be further modified to reflect the
6 addition of specific filing requirements.
7

8 Further, the Commission has initiated Docket No. 08-137-U to consider
9 alternative ratemaking mechanisms. In that proceeding, the Commission can
10 consider whether an ongoing mechanism to address incremental storm costs is
11 warranted and the specific components of such a mechanism. Staff's
12 recommendation in this proceeding is based upon the specific circumstances faced
13 by EAI during 2008. It does not necessarily reflect how Staff would address
14 incremental storm expenses for EAI or another utility under different
15 circumstances.

16 SUMMARY OF EAI'S PROPOSAL

17 **Q. Please summarize the Company's proposal.**

18 **A.** In its application, the Company indicated that it has incurred approximately \$26.3
19 million in incremental storm expenses for the nine-month period ending
20 September 30, 2008. The Company is requesting authorization to: 1) record, in
21 FERC account 182.3, Other Regulatory Assets, the incremental storm expenses
22 that it has incurred through September 30, 2008, and 2) implement Rider SDR
23 which is designed to recover the incremental storm expenses over a twelve-month
24 period beginning with the first billing cycle in 2009 and ending with the last
25 billing cycle in December 2009. In accordance with the provisions of the
26 proposed Rider SDR, the Company has added approximately \$1.1 million to the
27 amount it is seeking to recover from ratepayers to reflect the application of

1 carrying charges on the balance of the incremental storm expenses compounded
2 monthly at the Company's overall pre-tax rate of return. Rider SDR provides for
3 the implementation of the initial SDR rates effective with the first billing cycle of
4 January 2009. Rider SDR also provides for the re-determination of the rates in
5 July 2009 to reflect: 1) an adjustment to the balance of the incremental storm
6 expenses to reflect the addition of the storm expenses incurred by the Company
7 during the last quarter of 2008, 2) an adjustment to the balance of the incremental
8 storm expenses to reflect the results of Staff's audit of EAI's 2008 storm costs,
9 which is to be completed by no later than April 30, 2009, and 3) the results of an
10 analysis of EAI's 2008 earnings which is to be completed by June 15, 2009 (EAI
11 will file the analysis on or before April 1, 2009; Staff will complete its review of
12 the filing by April 30, 2009; and, the Commission will issue an order by June 15,
13 2009). The Company has proposed that the RERT be used as the basis for
14 conducting the earnings analysis. EAI has proposed that the RERT calculation be
15 modified to reflect the rate of return on rate base as approved by the Commission
16 in Docket No. 06-101-U, EAI's most recent rate case. In addition, the Company
17 has proposed that the adjustment items and other factors in the RERT be updated
18 consistent with the Commission findings in Docket No. 06-101-U, and to reflect
19 the jurisdictional revenue requirement that is not currently recovered in base rates.

20 **Q. What reasons were given by the Company for filing its proposal at this time?**

21 **A.** In Order No. 4 issued in Docket No. 07-129-U, the proceeding in which an annual
22 earnings review tariff was considered for EAI, the Commission indicated that it
23 was "open to the consideration of alternative 'extraordinary' storm restoration
24 cost methodologies that are both fair and reasonable to ratepayers and in the

1 public interest as determined by the Commission.”³ On page 3 of its application,
2 EAI indicates that its request was being made based on the Commission’s
3 “invitation.” EAI also stated (p. 9) that it needs an order by December 23, 2008,
4 “[i]n order to meet requirements of the Company’s auditors.”

5 **RATEMAKING TREATMENT OF STORM EXPENSES**

6 **Q. How are storm damage expenses incurred by a utility typically reviewed and**
7 **subsequently recovered?**

8 **A.** Storm damage expenses are typically reviewed in the context of a general rate
9 case proceeding. During the rate case proceeding, a comprehensive review of all
10 the utility’s costs which are not subject to exact recovery is performed. The test-
11 year expenses reported by the utility are examined to determine their reasonably
12 expected normal, ongoing levels. Once the reasonably expected normal, ongoing
13 expense levels are established, those amounts are included in the determination of
14 the utility’s jurisdictional revenue requirement. Rates are subsequently designed
15 to allow the utility a reasonable opportunity to recover its Arkansas jurisdictional
16 revenue requirement. These procedures are consistent with the standard of
17 affording public utilities a reasonable opportunity to earn a fair return. The
18 business risk associated with the variance between the Commission’s
19 determination of the utility’s revenue requirement and the actual costs incurred by
20 the utility in the provision of utility service, including the variation in storm
21 expenses, is comprehended in the allowed return on equity.

22 **Q. How is the reasonably expected normal, ongoing level of storm damage**
23 **expense determined during a rate case proceeding, given that the level of**

³ Docket No. 07-129-U, Order No. 4, pg. 13.

1 **storm expenses incurred by a utility is dependent upon the weather and**
2 **weather is unpredictable?**

3 A. The "normal level" of storm expense is based on the amount of actual storm
4 expenses, excluding abnormal storm expenses, incurred by the utility over some
5 specified period of time, typically the five-year period ending with the test year
6 selected by the utility in support of its rate application. Because the "normal
7 level" of storm expense represents a historical average, there will likely be some
8 degree of variance between the actual storm expenses incurred by the utility in
9 any given year and the "normal level" of storm expense. However, the actual
10 storm expenses incurred by the utility, excluding extraordinary storm expenses,
11 are not expected to be, on average, materially different than the "normal" storm
12 expense.

13 Q. **Was the method outlined above used to determine the "normal level" of**
14 **storm expense used in the development of the Company's currently approved**
15 **base rates?**

16 A. Yes. The development of the "normal level" of storm expense used in the
17 development of EAI's current rates is shown in Table 1. As reflected in Table 1,
18 EAI's reported storm expenses for the five-year period 2001 through 2005,
19 excluding extraordinary and non-recurring amounts, ranged from approximately
20 \$8.6 million in 2004 to approximately \$18 million in 2005. The five-year average
21 of approximately \$14.5 million was used in the development of the Company's
22 currently-effective rates.

Table 1	
Docket No. 06-101-U	
Calculation of "Normal" Storm Expense	
<u>Year</u>	<u>Amount</u>
2001	\$ 10,926,000
2002	\$ 18,451,000
2003	\$ 16,304,000
2004	\$ 8,555,000
2005	\$ 18,010,000
Total	\$ 72,246,000
5- Year Average	\$ 14,449,200
Note: Amounts exclude certain expenses related to extraordinary storms.	

1 **Q.** In Order No. 4 issued in Docket No. 07-129-U, the Commission stated that it
2 was "open to the consideration of alternative 'extraordinary' storm
3 restoration cost methodologies."⁴ Please explain the difference between
4 "normal" storm expense and "extraordinary" storm expense.

5 **A.** Normal or normalized storm expense represents the annual level of storm
6 expenses embedded in a utility's base rates (Normal Storm Expense). Two
7 factors distinguish extraordinary storm expenses from normal storm expenses: 1)
8 the unusual and infrequent nature of the storm or series of storms that caused the
9 incurrence of the expenses; and, 2) the magnitude of the expenses incurred to
10 restore service. The storm expenses incurred by EAI as a result of the 2000 back
11 to back, 100-year ice storms, and the storm expenses incurred by Empire as a
12 result of the January and December 2007 ice storms are examples of extraordinary
13 storm expenses.

14 **Q.** Are extraordinary storm expenses embedded in base rates?

15 **A.** As is the case with other unusual, non-recurring costs, extraordinary storm
16 expenses are not embedded in base rates. However, nothing prevents a utility

⁴ Docket No. 07-129-U, Order No. 4, p. 14.

1 from requesting Commission approval to recover extraordinary storm costs. As
2 noted by the Commission in Order No. 4 issued in Docket No. 07-129-U, the
3 threshold criterion used to evaluate the appropriateness of the utility proposal to
4 recover extraordinary storm expenses is whether the utility's proposal is "both fair
5 and reasonable to ratepayers and in the public interest as determined by the
6 Commission."⁵

7 **Q. What are some of the factors that should be considered in evaluating whether**
8 **the utility's proposal to recover extraordinary storm costs is both fair and**
9 **reasonable to ratepayers?**

10 A. The principal factors that should be considered in determining whether the
11 utility's proposal to recover extraordinary storm costs is both fair and reasonable
12 to ratepayers are: 1) whether the utility's proposal will result in unnecessary and
13 unwarranted rate increases, and 2) whether the terms and conditions of the
14 utility's rate recovery proposal will result in customers paying excessive costs.

15 **STAFF'S ANALYSIS OF EAI'S PROPOSAL**

16 **Q. Have you reviewed EAI's storm cost recovery proposal to determine whether**
17 **it is both fair and reasonable to ratepayers?**

18 A. Yes. EAI's incremental storm expenses are significantly in excess of the normal,
19 ongoing level included in EAI's current rates. Therefore, given the specific
20 circumstances confronted by EAI during 2008, it is reasonable for EAI to recover
21 those costs through a surcharge. EAI's proposal generally meets the threshold
22 criterion of being both fair and reasonable to ratepayers. However, as discussed
23 below, certain terms and conditions of the Company's proposal should be revised

⁵ Docket No. 07-129-U, Order No. 4, p. 14.

1 to help ensure that EAI's customers do not experience any unnecessary and
2 unwarranted rate increases or pay excessive costs.

3 The Company's 2008 Earnings Analysis

4 **Q. Please explain why an analysis of the Company's 2008 earnings is an**
5 **essential element of ensuring that the Company's proposal does not result in**
6 **unnecessary and unwarranted rate increases.**

7 **A. Isolating storm expenses and ignoring any increases in revenues or decreases in**
8 **other expenses could lead to unnecessary and unwarranted rate increases, because**
9 **the changes in revenues and other expenses offset, either partially or entirely, the**
10 **increase in storm expenses. An analysis of the Company's 2008 earnings will**
11 **help ensure that this does not occur.**

12 **Q. Will an analysis of the Company's 2008 earnings ensure that the Company's**
13 **proposal does not result in unnecessary and unwarranted rate increases?**

14 **A. Although an analysis of the Company's 2008 earnings will help reduce the**
15 **possibility that the Company's proposal will result in unnecessary and**
16 **unwarranted rate increases, that possibility is not eliminated in its entirety**
17 **because, as reflected in the filings Docket No. 01-084-U (the proceeding in which**
18 **EAI requested approval to recover the extraordinary storm costs it incurred as a**
19 **result of the 2000 ice storms) the Company may have experienced excess earnings**
20 **in prior years or may experience excess earnings in future periods. If captured,**
21 **those excess earnings could be used to offset the incremental storm expenses.⁶**
22 **However, based on the clearly unique circumstances and facts specific to this**

⁶ As reflected in the filings made in Docket No. 01-084-U, the Company reported excess earnings totaling approximately \$134.5 million during the years 1997 through 2001. The excess earnings plus the applicable interest totaling approximately \$21 million were used to offset the storm expenses related to the 2000/2001 ice storms.

1 case, Staff believes that the possibility that the Company's recovery proposal will
2 result in unnecessary and unwarranted rate increases is sufficiently minimized in
3 this instance.

4 **Q. The Company has proposed that the RERT approved in Docket No. 96-360-**
5 **U, subject to certain modifications, be used as the basis for preparing and**
6 **reviewing its 2008 earnings analysis. Does Staff object to the Company's**
7 **proposal?**

8 **A. Generally, no. On page 9 of his Direct Testimony, Company witness David**
9 **Wright states that EAI intends to make the following modifications to the RERT**
10 **calculation to reflect:**

11 1. The rate of return on rate base approved by the Commission in Docket
12 No. 06-101-U (this modification will fix the rate of return used to
13 determine the Company's allowed earnings at the overall rate of return
14 established in the Company's last rate case, Docket No. 06-101-U);

15 2. The accounting adjustments and other factors consistent with Docket
16 No. 06-101-U (this modification will cause the substitution of the
17 ratemaking adjustment embodied in the Commission's determination
18 of EAI's base rate revenue requirement in Docket No. 06-101-U with
19 those used in deriving the agreed upon revenue requirement in Docket
20 No. 96-360-U); and

21 3. The addition of adjustments to reflect the jurisdictional revenue
22 requirements not in base rates (this modification will result in the
23 revenue requirement associated with the Quachita plant being
24 considered in the determination of the Company's allowed earnings).

25 **Q. Does Staff recommend any additional modifications be made to the RERT?**

26 **A. Yes. Given the purpose and timing of the 2008 earnings analysis, Staff**
27 **recommends the RERT be further modified to reflect:**

28 1. The use of average rate base, as opposed to year-end rate base, in the
29 determination of the Company's earnings; and

1 2. The development of the Arkansas jurisdictional revenue requirement
2 based on the functional allocation cost allocation factors, as opposed to
3 the rate base allocation factor.

4 The average rate base, the average of the beginning balance and ending balance,
5 better reflects the level of EAI's earnings throughout the year in contrast to end of
6 the year point-in-time measurement. As such, the use of average rate base will
7 provide a more accurate assessment of the Company's earnings. The development
8 of the Arkansas jurisdictional revenue requirement based on functional allocation
9 factors is consistent with the Company's functional allocation of its incremental
0 storm costs.

Staff also recommends that the documents necessary to support the Company's analysis be provided to Staff and other parties at the time that the 2008 earnings analysis is filed. Providing the supporting documents at the time of the filing will help facilitate Staff's and other parties' review of the Company's analysis and ensure the timely implementation of the revised SDR rates. Staff's recommended minimum filing requirements are presented in Staff's Exhibit ADW-1. Those minimum filing requirements substantially reflect the information Staff obtained through discovery during its review of EAI's previous RERT filings.

0 Carrying Charges

1 Q. Did the Company substantiate that the application of carrying charges on the
2 balance of the incremental storm expenses compounded monthly at the
3 Company's overall pre-tax rate of return is fair and reasonable to
4 ratepayers?

5 A. No. The Company did not discuss this issue in its filing.

1 **Q. Please explain how the application of carrying charges on the balance of the**
2 **incremental storm expenses compounded monthly at the Company's overall**
3 **pre-tax rate of return is unfair and unreasonable to ratepayers.**

4 **A. EAI's proposal effectively provides for a guaranteed recovery of its 2008 excess**
5 **storm costs, instead of just the opportunity to recover the costs. Given the**
6 **certainty of the recovery of the Company's 2008 incremental storm expenses and**
7 **the short time period over which those expenses are expected to be recovered, the**
8 **application of carrying charges on the balance of the incremental storm expenses**
9 **compounded monthly at the Company's overall pre-tax rate of return is neither**
10 **necessary nor warranted, and is thereby neither fair nor reasonable to ratepayers.**

11 Additionally, this Commission has traditionally not allowed utilities to
12 earn a return on deferred storm expenses. In Order No. 5 of Docket No. 01-084-
13 U, when addressing the Company's proposal to apply carrying charges to the
14 balance of its deferred storm costs, the Commission specifically noted that "the
15 return, applicable to the risk inherent to a 'guaranteed' recovery, could be, within
16 a general rate case, fashioned separately from that applied to other portions of rate
17 base." The settlement approved by the Commission specifically provided that a
18 return would not be applied to the balance of the deferred storm costs.⁷
19 Recording the deferred incremental storm expenses in FERC account 186,
20 Miscellaneous Deferred Debits rather than FERC account 182.3, Other
21 Regulatory Assets will help ensure that the deferred incremental storm expenses
22 will not, at any time, be included in rate base or otherwise accrue interest or be
23 allowed a return.

⁷ See also Docket No. 08-064-U for The Empire District Electric Company.

Deadlines for Completion of Staff's Investigation

Q. Please briefly explain why a thorough audit of EAI's 2008 storm costs is necessary to help ensure that ratepayers do not pay excessive costs.

A. A thorough audit of EAI's storm costs should be performed to help ensure that only incremental, otherwise recoverable storm expenses are used in determining the recoverable amount of EAI's incremental storm expenses. Capital costs, non-incremental expenses that would have otherwise been incurred (such as straight-time payroll and the normal on-going level of overtime payroll costs), and expenses incurred for items that were not necessary to restore electric service, commonly referred to as standard disallowance items, should not be included in the determination of the amount of incremental storm expenses. For example, as reflected in the Stipulation and Settlement Agreement filed in Docket No. 01-084-U, the settling parties agreed that the Company incurred approximately \$195.5 million in storm costs related to the 2000 ice storms. Of that amount approximately \$36.9 million was incurred for items other than incremental storm expenses, such as capital costs, standard disallowances, and non-storm related expenses. Staff recommends that the Commission direct EAI to make a good faith effort to eliminate all capital costs, non-incremental expenses that would have otherwise been incurred (such as straight-time payroll and the normal on-going level of overtime payroll costs), and expenses incurred for items that were not necessary to restore electric service, commonly referred to as standard disallowance items which should not be included in the determination of the amount of incremental storm expenses. In its examination of EAI's storm cost

1 filings, Staff will endeavor to ensure that all such items are not included in any
2 amounts recovered from ratepayers.

3 **Q. The Company has proposed an April 30, 2009 deadline for the completion of**
4 **Staff's audit. Does this deadline provide the Staff with sufficient time to**
5 **conduct a thorough audit of EAI's 2008 storm costs?**

6 **A. No. Staff will endeavor to complete its audit as soon as practical. The Company**
7 **is required to provide the filing information shown in Staff's Exhibit ADW-2 no**
8 **later than February 15th. After reviewing item 3, Staff will submit a request for**
9 **invoices or other support which EAI will provide in electronic format within 15**
10 **days. Assuming the timely receipt of responses to its data requests and absent any**
11 **material change in the anticipated workload, Staff should be able to conduct a**
12 **thorough investigation of EAI's storm costs by no later than June 30, 2009.**
13 **Therefore, Staff recommends that the deadline for the completion of its audit of**
14 **EAI's 2008 storm costs be extended to June 30, 2009.**

15 **Q. The Company has recommended a deadline of April 30, 2009 for the**
16 **completion of Staff's review of the 2008 earnings analysis. Should the**
17 **deadline for the completion of Staff's review of the 2008 earnings analysis be**
18 **the same as the deadline for the completion of Staff's audit of EAI's 2008**
19 **storm costs?**

20 **A. Yes. Having the same deadline, June 30, 2009, for the completion of Staff's audit**
21 **of the EAI's 2008 storm costs and the completion of Staff's review of the**
22 **Company's 2008 earnings will help ensure that Staff's investigation is both**
23 **comprehensive and thorough.**

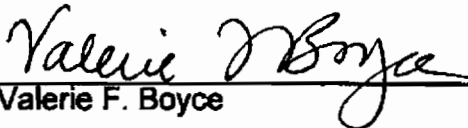
24 **Q. Please summarize your recommendations.**

ENTERGY ARKANSAS, INC.
DOCKET NO. 08-149-U
DIRECT TESTIMONY OF ALICE D. WRIGHT -17-

- 1 **A.** I recommend that the Commission approve the Company's request subject to the
2 modifications discussed above. I further recommend that the Commission direct
3 EAI to make a good faith effort to eliminate all capital costs, non-incremental
4 expenses that would have otherwise been incurred (such as straight-time payroll
5 and the normal on-going level of overtime payroll costs), and expenses incurred
6 for items that were not necessary to restore electric service, commonly referred to
7 as standard disallowance items which should not be included in the determination
8 of the amount of incremental storm expenses.
- 9 **Q.** **Does this complete your testimony?**
- 10 **A.** Yes.

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing has been served on all parties of record by forwarding the same by electronic mail and/or first class mail, postage prepaid, this 12th day of November, 2008.


Valerie F. Boyce

Nov 12 11 04 AM '08

BEFORE THE
ARKANSAS PUBLIC SERVICE COMMISSION

FILED

IN THE MATTER OF THE JOINT PETITION OF)
ENTERGY ARKANSAS, INC. FOR AN)
ACCOUNTING ORDER AUTHORIZING)
ESTABLISHMENT OF A REGULATORY ASSET)
AND STORM DAMAGE RIDER)

DOCKET NO. 08-149-U

DIRECT EXHIBITS

OF

ALICE D. WRIGHT
DIRECTOR OF COST ALLOCATION AND RATE DESIGN

ON BEHALF OF THE GENERAL STAFF OF THE
ARKANSAS PUBLIC SERVICE COMMISSION

NOVEMBER 12, 2008

1
1

**2008 EARNINGS ANALYSIS
FINANCIAL AND STATISTICAL
FILING REQUIREMENTS**

The financial and statistical data set out below shall be provided for the Earnings Analysis Period:

A. Historical Accounting Data

1. Identify and explain any significant changes in policies during the Earnings Analysis Period.
2. Provide 13 months of trial balances including the beginning Earnings Analysis Period and each month in the Earnings Analysis Period for all general ledger sub-accounts (101.xxx – 935.xxx). If not already submitted FERC Form 1 for 2008 should be submitted and the subaccounts should be subtotaled by FERC account and the beginning of the year and end of the year amounts should be reconciled to FERC Form 1).
3. Provide a Microsoft Access database of all general ledger accounting activity for each month in the Earnings Analysis Period.
4. Provide an Accounts Payable ledger for the Earnings Analysis Period sorted by vendor name, FERC expense account(s), and sub-account (if applicable).
5. Provide balances for the “300” series plant accounts for the beginning of the Earnings Analysis Period and each month in the Earnings Analysis Period and, in additional columns, the accumulated depreciation balances by each “300” series plant account for the beginning of the Earnings Analysis Period and each month in the Earnings Analysis Period. Reconcile to the utility plant accounts.
6. Provide O&M expense totals for the Earnings Analysis Period by activity code, resource code, account, project code (if applicable), and bill resource code (if applicable).

B. Trend Analysis

1. Present a five-year trend analysis calculating the average balance by FERC Account for expenses for the five-year period ending with the Earnings Analysis Period. Identify and explain all significant changes in accounting procedures during the Earnings Analysis Period. For any accounting reclassifications identified in the accounting changes, align and reconcile accounts that reflect accounting changes in order to consistently track the accounting change through the five-year trend.

2. Identify and explain changes between the Earnings Analysis Period costs and the five-year average by FERC Account for all variances greater than 30% and \$500,000, excluding Fuel and Purchased Power costs that are recovered through separate recovery riders. Provide separate variance explanations for affiliate charges and EAI direct costs. The explanation must include the specific underlying reason for the variance. Simply noting a change in charges is an insufficient explanation. For the variances for which an explanation is provided, present a five-year trend analysis calculating the average balance by FERC Account for expenses, excluding payroll and benefits expenses, for the five-year period ending with the Earnings Analysis Period.

C. Affiliate Charges

1. Provide an analysis by EAI expense account (separate line for each account) showing separate columns for:
 - (a) Amounts billed, segregated between direct and allocated, from each affiliated company with a separate column for each affiliate.
 - (b) Amounts directly incurred by EAI for its own operations.
 - (c) All other amounts in the account not corresponding to (a) or (b). Provide an explanation of all items in this "all other amounts" column that are for anything other than rounding differences.
 - (d) The sum of columns (a) through (c) which would equal the account's general ledger balance at the end of the Earnings Analysis Period.
2. Provide a list of all direct project charges from the affiliated service company to EAI that exceeded \$700,000 during the Earnings Analysis Period. List by project code, project description, the affiliated service company's billing method, and amount.
3. Provide a list of all allocated project charges from the affiliated service company to EAI that exceeded \$700,000 during the Earnings Analysis Period. List by project code, project description, the affiliated service company's billing method, and amount.

D. Out-of-Period Items

1. Provide a description of the item and dollar amount, directly or indirectly charged or credited by or to EAI, by account, activity, and/or project of any transaction greater than \$500,000, prior period adjustment including refunds, event, program, or initiative charged to the general ledger for the Earnings Analysis Period that was not usual or is not expected to recur. In addition, provide the costs or savings on any significant transaction, event, program or initiative which occurred in the Earnings Analysis Period that did not occur or was not significant or fully implemented in the prior year. Include the description and financial impact or

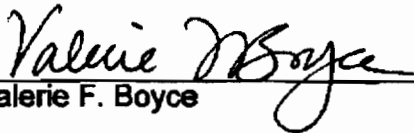
accounting amount of changes in taxation rates or status, restructuring,
downsizing, outsourcing, mergers, consolidations, etc.

**2008 STORM COST AUDIT
FILING REQUIREMENTS**

1. Provide 2008 Storm expense totals for each month by account, activity code, and resource code. Any affiliate charges should be identified separately. Payroll information, including salaried and non-salaried base pay, overtime and related taxes and benefits should be clearly identified—if not, those amounts should be reported separately—broken out by company (eg: EAI and ESI).
2. Provide the amount of incremental 2008 Storm expense for each month by account, activity code, and resource code. This should be net of any base pay, overtime at the percentage included in base rates, routine vegetation management, capitalized amounts and other standard disallowable items. Note: these detailed amounts should be totaled and then show the reduction for the amount currently included in base rates to arrive at the total recovery requested.
3. Provide a Microsoft Excel spreadsheet of all general ledger accounting activity for each month for the information requested in item 2.
4. Provide 2008 Storm amounts that were capitalized by FERC plant account (300 series).
5. Provide all 2008 expenditures for vegetation management by account, activity code, and resource code, identifying vendor amounts and salary and non-salaried payroll and overtime amounts by company if applicable. Amounts should be classified as storm-related or routine vegetation management.
6. Provide all 2008 revenues received or reductions in EAI expense due to providing mutual assistance to affiliates or other companies.

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing has been served on all parties of record by forwarding the same by electronic mail and/or first class mail, postage prepaid, this 12th day of November, 2008.


Valerie F. Boyce

BEFORE THE ARKANSAS PUBLIC SERVICE COMMISSION

**IN THE MATTER OF THE PETITION)
OF ENTERGY ARKANSAS, INC. FOR AN)
ACCOUNTING ORDER AUTHORIZING)
ESTABLISHMENT OF A REGULATORY)
ASSET AND STORM DAMAGE RIDER)**

Docket No. 08-149-U

DIRECT TESTIMONY OF WILLIAM B. MARCUS

on behalf of

THE ATTORNEY GENERAL

November 12, 2008

1 ARKANSAS PUBLIC SERVICE COMMISSION
2 DOCKET NO. 08-149-U

3 DIRECT TESTIMONY OF WILLIAM B. MARCUS
4 ON BEHALF OF THE ATTORNEY GENERAL

5 Q. Please state your name, business affiliation and address.

6 A. I am William B. Marcus. I am Principal Economist for JBS Energy, Inc., 311 D
7 Street, West Sacramento, California 95605.

8 Q. Please provide your qualifications.

9 A. My qualifications are attached as Exhibit WBM-1. I have over 30 years
10 experience with energy utility issues. I have previously testified or made formal
11 comments before about forty federal, state, provincial, and local utility and
12 environmental regulatory bodies in the U.S. and Canada on issues including
13 utility restructuring and performance-based ratemaking, revenue requirements,
14 resource planning, and cost-of-service and rate design.

15 I have filed testimony at this Commission on a number of occasions, including
16 fourteen general rate cases involving Entergy Arkansas, Inc. ("EAI"), Arkansas
17 Oklahoma Gas Corporation, Arkansas Western Gas Company, CenterPoint
18 Arkla, Oklahoma Gas and Electric Company, Arkansas Electric Cooperative
19 Corporation, The Empire District Electric Company, and Southwestern Electric
20 Power Company. I have also testified or provided comments in four other cases
21 involving ratemaking for EAI, the AOG Weatherization case, both the 2000 and
22 2001 phases of the Commission's restructuring investigation, the commission's
23 rulemaking on integrated resource planning, and approximately 20 unbundling
24 cases for co-ops and investor-owned utilities, most of which were settled.

25 Q. On whose behalf are you appearing?

26 A. I am appearing on behalf of the Arkansas Attorney General. I was retained to
27 review the request of Entergy Arkansas, Inc. (EAI or the Company) for recovery
28 of 2008 storm damage costs.

29 Q. Will you describe Entergy Arkansas' proposal for storm damage recovery?

1 A. A general description is as follows. EAI requests a regulatory asset treatment of
2 2008 storm damage costs in excess of the amount included in rates (\$14,449,000).
3 The costs would be recovered in 2009. EAI would true up the costs to reflect
4 actual costs through the end of the 2008; the costs would be audited by Staff; and
5 EAI would offset the costs by any excess earnings in 2008 from non-storm-related
6 costs. EAI would receive a carrying charge on storm-related costs at the after-
7 tax return on rate base. Costs would be functionalized (e.g., transmission,
8 distribution) and allocated to customer classes on a cents per kWh basis using
9 most recent sales levels.

10 **Q. Will you summarize the Attorney General's position in this case?**

11 A. The Attorney General acknowledges that EAI did experience an unusually large
12 number of major storm events in 2008. Because of this, the Attorney General
13 believes that due to this unique circumstance, it is reasonable this one time to
14 provide a regulatory asset and allow recovery of storm damage costs amount
15 over 12 months. However, we would modify EAI's proposal:

- 16 1. Reduce the amount recovered by approximately \$4 million to take
17 into account normal variation in the storm damage expenses
18 around the average.
- 19 2. Deny recovery of carrying charges on the unrecovered balance.
- 20 3. Allow more time for the audit of storm damage expenses and
21 analysis of the earnings review.

22 **Q. Will you discuss EAI's storm damage expenses in recent years?**

23 A. The test year storm damage estimate included in rates is an average of
24 \$14,449,000. The individual years used to make up the average are given below
25 to the best of our understanding and exclude the 2000-2001 ice storm costs.¹ Staff
26 may have more precise figures. We will attempt to answer this question more

¹ Data are from AG DRs 2-52 and 3-08 in Docket No. 06-101-U, calibrated to match the Staff's figure that was adopted by the Commission.

1 precisely in response to the Commission's request for information in Order No. 1
2 of this docket.

2001	10,926
2002	18,451
2003	16,304
2004	8,555
2005	18,009 *
average	14,449
standard deviation	4,452

3 *excludes one-time costs of moving headquarters
4 from New Orleans after Hurricane Katrina per Staff.

4 In other words, while the average was \$14,449,000, the costs ranged from \$8.5
5 million to \$18.5 million in the five years used to develop the average.

6 In years after the average was developed storm damage costs were \$14,925,000 in
7 2006 and \$4,319,000 in 2007.²

8 **Q. In light of these expense levels, will you evaluate EAI's request to recover all**
9 **costs above the average of \$14,449,000?**

10 **A. EAI's request is unbalanced as an isolated request, because it requests the full**
11 **amount of storm recovery above the average, without recognizing normal**
12 **variation around the average. It is clear that 2008 was an abnormal year, but EAI**
13 **should only be allowed to recover the amount in excess of normal variation**
14 **above the average. We would suggest, theoretically, that the amount that EAI**
15 **should be allowed to defer for future recovery should be limited to an amount in**
16 **excess of the average plus one standard deviation (a measure of the normal**
17 **variation).**

18 We recommend that the reserve accounting requested by EAI be limited to the
19 amount in excess of \$18,451,000. This is the largest figure in the five-year period

²2006-2007 data come from AG DR 1-4 in Docket No. 08-091-U.

1 used to establish the average, but it is less than one standard deviation above the
2 average.³ This would reduce EAI's funding request by \$4,002,000.

3 **Q. Will you discuss EAI's request for carrying costs?**

4 A. Again, this is an unbalanced request. While the Attorney General might consider
5 carrying cost recovery by both ratepayers and the company as part of a general
6 storm damage reserve accounting method (depending on its design), this is an
7 isolated and extraordinary request for funding. Moreover, because the funds are
8 to be recovered in a twelve-month period, any amount of lost carrying charges
9 would be limited. The denial of carrying charges in this specific case also is a
10 means of reflecting the variability of the amounts of storm damage costs in past
11 years, as well as an acknowledgment that this treatment reduces EAI's risk.

12 **Q. Will you discuss the timing of storm audit and earnings tests?**

13 A. EAI is proposing relatively rapid timelines for these audits that would complete
14 the process by June 15, 2009. While the Attorney General would defer to the
15 Staff on the time it needs to do its work, these timelines appear rigid.

16 In our view, there is no need to hurry. The storm audit and earnings review can
17 only reduce the amount to be paid by ratepayers, so there would be no rate
18 shock (which could occur if an additional amount of money were found to be
19 owed and had to be paid over a short period of time such as three months).

20 **Q. Does this complete your testimony, Mr. Marcus?**

21 A. Yes it does, subject to providing answers to the Commission's requests for
22 information at a later date as requested in Order No. 1 of this docket.

³ Had the largest figure been over one standard deviation above the average, we would have recommended an increase of one standard deviation.

CERTIFICATE OF SERVICE

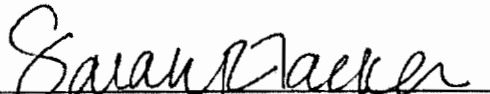
I, Sarah R. Tacker, do hereby certify that on this 12th day of November, 2008, a copy of the above and foregoing Direct Testimony was emailed to the following persons at the indicated email address:

Steven Strickland
Entergy Arkansas, Inc.
P.O. Box 551
Little Rock, AR 72203
sstrick@entergy.com

Laura Raffaelli
Entergy Services, Inc.
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Little Rock, AR 72203-0400
valerie_boyce@psc.state.ar.us


Sarah R. Tacker

Nov 26 11 24 AM '08

BEFORE THE
ARKANSAS PUBLIC SERVICE COMMISSION **FILED**

IN THE MATTER OF THE PETITION OF)
ENTERGY ARKANSAS, INC. FOR AN)
ACCOUNTING ORDER AUTHORIZING)
ESTABLISHMENT OF A REGULATORY)
ASSET AND STORM DAMAGE RIDER)

DOCKET NO. 08-149-U

REBUTTAL TESTIMONY
OF
STEVEN K. STRICKLAND
VICE PRESIDENT, REGULATORY AFFAIRS
ENTERGY ARKANSAS, INC.

ON BEHALF OF
ENTERGY ARKANSAS, INC.

NOVEMBER 26, 2008



1 I. INTRODUCTION AND BACKGROUND

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

3 A. My name is Steven K. Strickland. I am employed by Entergy Arkansas,
4 Inc. ("EAI" or the "Company") as Vice President, Regulatory Affairs. My
5 business address is 425 West Capitol Avenue, Little Rock, Arkansas
6 72201.

7

8 Q. ON WHOSE BEHALF ARE YOU TESTIFYING?

9 A. I am testifying on behalf of EAI.

10

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

13 A. I joined Arkansas Power & Light Company, now EAI, in 1979 after
14 graduation from college. I worked in various engineering positions
15 supporting generation operation and planning for several years. My
16 assignments primarily were associated with the evaluation of new
17 generation, including joint venture cogeneration projects with some of the
18 Company's largest industrial customers. In 1985, I accepted a new
19 position with managerial responsibilities for account management for EAI's
20 largest industrial customers and for economic development. In 1987 and
21 1988, I served as executive assistant to the Chairman of the Board of
22 Entergy Corporation at the corporate headquarters in New Orleans. Since
23 returning to Little Rock, I have had various responsibilities involving load

1 forecasting and regulatory affairs with the Company, was named as
2 Director, Regulatory Affairs in 1996, and to my current position as Vice
3 President, Regulatory Affairs in 2001.

4 I was awarded a Bachelor of Science in Chemical Engineering in
5 1979 from the University of Arkansas. I also was awarded a Masters in
6 Business Administration from the University of Arkansas at Little Rock in
7 1982 and a Juris Doctorate from the University of Arkansas School of Law
8 in 1995.

9

10 Q. HAVE YOU PREVIOUSLY PROVIDED TESTIMONY BEFORE THE
11 APSC?

12 A. Yes. I have testified on regulatory policy issues in Docket Nos. 98-114-
13 U/01-084-U/01-129-U, 00-177-U, 01-209-U, 02-083-U, 04-046-U, 06-152-
14 U, 06-055-U/05-116-U, and 07-129-U.

15

16 Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

17 A. I will address a position advocated by Arkansas Attorney General ("AG")
18 witness William B. Marcus that EAI should reduce the amount of storm
19 damage expenses to be recovered to take into account the normal
20 variation in these expenses around the average. My testimony will
21 demonstrate that because EAI has proposed an earnings review on all of
22 its 2008 costs and revenues, then an adjustment to account for the

1 variance in storm expense that went into establishing the average amount
2 allowed in base rates is not necessary or appropriate.

3

4 II. DETERMINATION OF LEVEL OF COST RECOVERY

5 Q. MR. MARCUS STATES IN HIS TESTIMONY THAT THE COMPANY'S
6 REQUEST TO RECOVER ITS STORM RESTORATION EXPENSE IS
7 "UNBALANCED" BECAUSE IT DOESN'T RECOGNIZE THE VARIATION
8 AROUND THE AVERAGE.¹ DO YOU AGREE?

9 A. No. Mr. Marcus is correct that the average storm restoration expense that
10 is reflected in EAI's base rates is an average of the storm restoration
11 expense from five historical years. Statistically, there is a variation of
12 these figures around this average. However, Mr. Marcus does not
13 address the Company's proposal for an earnings review for the year 2008.

14

15 Q. WHY IS THAT SIGNIFICANT?

16 A. Mr. Marcus would have the Commission focus on the variance of an
17 isolated expense in the Company's base rates that is based upon an
18 average. EAI has proposed an earnings review that would examine all of
19 its revenues and costs for the year 2008, in which it also incurred an
20 extraordinary level of storm expenses. Under the Company's proposal, it
21 would only be allowed to recover the extraordinary level of storm

¹ Marcus Direct Testimony at 4.

1 expenses up to the earnings level allowed by the Commission in EAI's last
2 general rate case, Docket No. 06-101-U. Said another way, any excess
3 earnings that the Company experienced in 2008 would be used to offset
4 the requested level of storm restoration expense.

5 Therefore, because the earnings review ensures that any
6 overearnings would be used for the benefit of customers to offset the
7 storm expenses, there is no reason to require what would essentially be a
8 disallowance of prudently incurred expenses. Customers are protected
9 from paying for the storm restoration expense in the event the Company
10 experienced any overearnings in 2008, and the Company can recover the
11 prudently incurred storm expense only to the level of its allowed return.

12

13 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

14 A. Yes, it does.

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 26th day of November, 2008.

A handwritten signature in black ink, appearing to read "St K Strickland", written over a horizontal line.

Steven K. Strickland

DEC 3 1 47 PM '08

BEFORE THE
ARKANSAS PUBLIC SERVICE COMMISSION

FILED

IN THE MATTER OF THE PETITION OF)
ENTERGY ARKANSAS, INC. FOR AN)
ACCOUNTING ORDER AUTHORIZING)
ESTABLISHMENT OF A REGULATORY)
ASSET AND STORM DAMAGE RIDER)

DOCKET NO. 08-149-U

JOINT MOTION TO APPROVE
STIPULATION AND SETTLEMENT AGREEMENT

COME NOW the General Staff of the Arkansas Public Service Commission ("Staff"); the Arkansas Attorney General ("AG"); and Entergy Arkansas, Inc. ("EAI" or the "Company"), hereinafter referred to collectively as the "Parties," and for their Joint Motion to Approve Stipulation and Settlement Agreement ("Joint Motion"), state as follows:

1. EAI, Staff, and the AG have previously filed prepared testimony and exhibits in this Docket that set forth their positions regarding EAI's proposed accounting treatment and rate mechanism.

2. Following the filing of testimony, all the Parties to this Docket had discussions in an effort to resolve the issues that divided them.

3. As a result of those discussions, the Parties to this Joint Motion have entered into a formal, written Stipulation and Settlement Agreement (the

"Agreement") that resolves, for the purposes of this proceeding, all the points previously at issue among them. The Agreement is attached hereto as Joint Exhibit A.

4. In support of the Joint Motion and the Agreement, the Parties submit the testimony of Steven K. Strickland and Oscar D. Washington on behalf of EAI, Alice D. Wright on behalf of the Staff, and William B. Marcus on behalf of the AG. The Parties to this Joint Motion believe that approval of this Agreement is in the public interest.

5. The Parties agree to waive cross examination of one another's witnesses at the hearing scheduled for December 5, 2008.

6. Due to the unique circumstances confronted by EAI during 2008, the Parties request that the Commission issue an order approving the deferral and the initial surcharge on or before December 23, 2008, so that the initial surcharge can be implemented effective with the first billing cycle of January 2009 and collection completed by the end of 2009.

7. The Arkansas Electric Energy Consumers, Inc. has authorized the Parties to state that it does not oppose the Agreement.

WHEREFORE, Staff, the AG, and EAI pray that the Commission accept the attached Agreement as part of the record in this Docket, enter an appropriate order approving the Agreement as submitted, and grant them all other necessary and proper relief.

Respectfully submitted,

GENERAL STAFF OF THE ARKANSAS
PUBLIC SERVICE COMMISSION

By: Valerie F. Boyce
Valerie F. Boyce
Staff General Counsel
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ARKANSAS ATTORNEY GENERAL

By: M. Shawn McMurray
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ENTERGY ARKANSAS, INC.

By: *Laura Raffaelli*
Laura Raffaelli
Senior Counsel
Entergy Services, Inc.
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Telephone: (501) 377-5876

CERTIFICATE OF SERVICE

I, Laura Raffaelli, do hereby certify that a copy of the foregoing has been served upon all parties of record this 3rd day of December, 2008.



Laura Raffaelli

Arkansas Public Service Commission
Dec 3 1 43 PM '08

BEFORE THE
ARKANSAS PUBLIC SERVICE COMMISSION

FILED

IN THE MATTER OF THE PETITION OF)
ENTERGY ARKANSAS, INC. FOR AN)
ACCOUNTING ORDER AUTHORIZING)
ESTABLISHMENT OF A REGULATORY)
ASSET AND STORM DAMAGE RIDER)

DOCKET NO. 08-149-U

STIPULATION AND SETTLEMENT AGREEMENT

The Arkansas Public Service Commission General Staff ("Staff"); the Arkansas Attorney General ("AG"); and Entergy Arkansas, Inc. ("EAI" or the "Company"), hereinafter referred to collectively as the "Parties," consent and agree to the following terms in settlement of all issues pending before the Arkansas Public Service Commission ("Commission" or "APSC") in APSC Docket No. 08-149-U.

I. PURPOSE

The purpose of this Stipulation and Settlement Agreement ("Agreement") is to resolve all outstanding issues in Docket No. 08-149-U. The Agreement allows EAI to (1) defer the incremental storm damage restoration expenses incurred by the Company during the calendar year 2008, which represents the amount that is in excess of the \$14,449,000 normalized storm damage restoration expenses used in the development of the Company's currently approved base rates ("Excess Storm Costs") and (2) implement a new rate mechanism, Rate Schedule No. 50, Storm Damage Rider ("Rider SDR"),

attached hereto, to recover from its customers over a twelve month period such Excess Storm Costs beginning with the first billing cycle in January 2009. The recovery of such Excess Storm Costs would be subject to audit and earnings review similar to the Regulatory Earnings Review Tariff procedure approved by the Commission in Docket No. 96-360-U with any over-earnings to be applied to the deferral balance and returned to customers through Rider SDR. As of September 30, 2008, the Company has incurred \$40.744 million of operation and maintenance storm restoration costs. This amount is approximately \$26.295 million above the \$14.449 million allowed in EAI's current base rates of which approximately \$25.834 million is the retail portion. The Parties' Agreement is based upon the unique circumstances in this case as described in the pre-filed testimony.

II. STIPULATION PROVISIONS

- A. The Parties recommend that EAI be allowed to defer approximately \$26.295 million in incremental storm damage restoration expenses incurred by the Company during the calendar year 2008, which represent the amount that are in excess of the \$14,449,000 normalized storm damage restoration expense amount used in the development of the Company's currently approved base rates with the understanding that such amount may be adjusted after audit and earnings review, as further discussed below. The deferred incremental storm restoration expenses will be recorded in Federal Energy Regulatory Commission ("FERC")

account 186, Miscellaneous Deferred Debits.

- B. Due to the unique circumstances confronted by EAI during 2008, the Parties request that the Commission issue an order approving the deferral and the initial surcharge on or before December 23, 2008, so that the initial surcharge can be implemented effective with the first billing cycle of January 2009 and collection completed by the end of 2009.
- C. EAI will implement a new rate mechanism, Rider SDR, to recover from its customers, over a twelve-month period, the excess storm damage restoration expenses recorded in account 186. Rider SDR will not provide for the application of any carrying charges to the balance of the deferred storm damage restoration expenses.
- D. An initial surcharge will be implemented based on the retail portion of the actual 2008 incremental storm damage restoration expenses in excess of the \$14,449,000 normal, ongoing level included in rates. As of September 30, 2008, that balance was approximately \$25.834 million.
- E. The initial surcharge is subject to revision due to the adjustment of the 2008 incremental storm damage restoration expenses in excess of the \$14,449,000 normal, ongoing level included in rates to actual expenses through the end of calendar year 2008, and any adjustments resulting

from the 2008 earnings test and/or the audit of 2008 storm damage costs as approved by the Commission in accordance with the procedures set forth in Rider SDR. EAI will file a revised surcharge in accordance with procedures set forth in paragraph K. After receiving Commission approval, the revised surcharge will be implemented with the first billing cycle of September 2009.

F. EAI will file an Earnings Report for the calendar year 2008 using the procedures specified in Rider SDR. If the earnings test reveals any excess earnings, then the excess earnings will be used to reduce the deferred balance of excess storm damage restoration expenses in FERC account 186, Miscellaneous Deferred Debits. If the previously collected initial surcharge exceeds the deferred balance reduced by any excess earnings, the amount will be refunded through the rider within the twelve months ending December 31, 2009.

G. As set forth in Rider SDR, the schedule for completing the earnings review is as follows:

1. EAI will file its Earnings Report on or before May 1, 2009;
2. Staff and Intervenors shall complete their review of the filing by July 31, 2009; and
3. the parties shall attempt to reach a resolution on any disputed issues by August 14, 2009.

- H. Staff will conduct an audit of EAI's 2008 actual total storm damage restoration expenses and deferred 2008 incremental storm damage restoration expenses in excess of the \$14,449,000 normal, ongoing level included in rates to determine the amount of storm damage restoration expenses eligible for recovery. EAI will make its best efforts to review the costs subject to audit to eliminate all capital costs and to ensure that the costs requested are consistent with the types of costs described in the Direct Testimony of Alice D. Wright filed in this Docket.
- I. As set forth in Rider SDR, the schedule for completing the storm cost audit is as follows:
1. EAI will provide storm cost audit filing information, no later than February 15, 2009, including an update to reflect actual total storm damage restoration expenses and incremental storm damage restoration expenses in excess of the \$14,449,000 normal, ongoing level included in rates incurred through the end of 2008;
 2. Staff shall endeavor to complete its review of the storm damage restoration expenses by July 31, 2009; and
 3. EAI, Staff, and Intervenors shall attempt to reach a resolution on any disputed issues by August 14, 2009.

- J. As set forth in Rider SDR, if a resolution of all issues in both the earnings review and the audit is not reached, the following procedural schedule will be established to address any disputed amounts:
1. Initial testimony by EAI, Staff, and Intervenors shall be filed by August 31, 2009;
 2. Rebuttal testimony by EAI, Staff, and Intervenors shall be filed by September 8, 2009;
 3. A hearing shall be held on September 15, 2009; and
 4. A Commission order addressing the earnings review results and the final amount of deferred storm damage restoration expenses entered no later than September 21, 2009.
- K. As set forth in Rider SDR, following the Commission's order, EAI shall adjust the 2008 incremental storm damage restoration expenses in excess of the \$14,449,000 normal, ongoing level included in rates accordingly and, by noon on September 24, 2009, file for approval of a revised surcharge, designed to complete collection of 2008 actual incremental storm damage restoration expenses in excess of the \$14,449,000 normal, ongoing level included in rates by the end of 2009. The Commission will enter an order approving the revised surcharge not later than September 28, 2009, which is necessary to provide sufficient time to implement the revised surcharge by the first billing cycle of October 2009.

III. **RIGHTS OF THE PARTIES**

- A. The Parties' Agreement is based upon the unique circumstances in this case as described in the pre-filed testimony. This recommendation does not necessarily reflect how any party would address the incremental storm expenses for EAI or any other utility under different circumstances. The Agreement will not preclude any party from taking a legal position on any issues in the future nor shall anything therein constitute an admission of any claim, defense, interpretation of law, allegation of fact, principle or method of ratemaking or cost-of-service determination, or rate design, or terms or conditions of service, or the application of any rule or interpretation of law that may underlie, or be perceived to underlie, the Agreement.

- B. This Agreement is expressly contingent upon its approval by the Commission without modification in Docket No. 08-149-U. The various provisions of the Agreement are interdependent and unseverable. All Parties will cooperate fully in seeking acceptance and approval by the Commission of the Agreement and will support its approval in all respects without modification.

- C. Except as to the procedures established in this Agreement and except as to matters specifically agreed to be done or occur in the future, no party

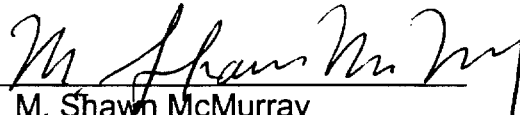
shall be precluded from taking any position on the merits of any issue in any subsequent proceeding in any forum.

- D. In the event the Commission does not accept, adopt, and approve this Agreement in its entirety and without modification in Docket No. 08-149-U, the Parties agree that this Agreement shall be void and of no effect. However, in the event, the Parties agree (a) no Party hereto shall be bound by any of the provisions or agreements herein contained; (b) all Parties hereto shall be deemed to have reserved all their respective rights and remedies in this proceeding; and (c) no Party hereto shall introduce this Agreement or any writings, discussions, negotiations, or other communication of any type related to this Agreement in any proceeding.
- E. In the event of a conflict between the terms of this Agreement and the terms of Rider SDR, the terms of the Rider SDR shall control.

GENERAL STAFF OF THE ARKANSAS
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BEFORE THE
ARKANSAS PUBLIC SERVICE COMMISSION

IN THE MATTER OF THE PETITION OF)
ENTERGY ARKANSAS, INC. FOR AN)
ACCOUNTING ORDER AUTHORIZING)
ESTABLISHMENT OF A REGULATORY)
ASSET AND STORM DAMAGE RIDER)

DOCKET NO. 08-149-U

ATTACHMENT
STORM DAMAGE RIDER

ARKANSAS PUBLIC SERVICE COMMISSION

Original

Sheet No. 50.1

Schedule Sheet 1 of 13
Including Attachments

Replacing:

Sheet No.

Name of Company

Kind of Service: Electric

Class of Service: All

Docket No.: 08-149-U

Order No.:

Effective:

Part III. Rate Schedule No. 50

Title: **Storm Damage Rider (SDR)**

PSC File Mark Only

50.0 STORM DAMAGE RIDER

50.1 PURPOSE

The Storm Damage Rider, ("Rider SDR"), defines the procedure to recover from EAI's retail customers, the retail allocation of the incremental operation and maintenance ("O&M") storm damage restoration expenses attributable to weather-related events that occurred during calendar year 2008 and that exceeded the \$14,449,000 normalized storm damage restoration expense amount used in the development of the base rates for Entergy Arkansas, Inc. ("EAI" or "Company") as approved in Docket No. 06-101-U ("Excess Storm Costs"). Such amount may be adjusted after audit and earnings review as discussed in § 50.4 and § 50.5 below.

50.2 APPLICATION

Rider SDR is applicable to all electric service billed under EAI's rate schedules whether metered or unmetered, and subject to the jurisdiction of the Arkansas Public Service Commission ("APSC or Commission"). Rider SDR costs will be accumulated by function and then allocated based on the functional revenue requirement derived from EAI's compliance cost of service filed in Docket No. 06-101-U.

50.3 STORM DAMAGE RIDER RATES

Rider SDR will consist of cents per kWh rate adjustments applied monthly to each account by rate class ("SDR Rates"). The amount of Excess Storm Costs will be accumulated by function and allocated based on the method described above in § 50.2. SDR Rates will be calculated for each rate class by using the projected energy sales (kWh) for the 12 month period of January 2009 through December 2009. The SDR Rates will remain in effect until all Excess Storm Costs are collected. EAI shall monitor the amounts collected pursuant to this Rider to ensure that the total revenue collected from ratepayers does not exceed the total sum of actual approved Excess Storm Costs. If the approved Excess Storm Cost amount for any rate class is recovered prior to the end of the recovery period, EAI shall cease collection from such class. Any over recovery at the end of the recovery period shall be refunded through Rate Schedule No. 38, Energy Cost Recovery Rider, as a credit to overall fuel expense.

(NR)

ARKANSAS PUBLIC SERVICE COMMISSION

Original

Sheet No. 50.2

Schedule Sheet 2 of 13
Including Attachments

Replacing:

Sheet No.

Name of Company

Kind of Service: Electric

Class of Service: All

Docket No.: 08-149-U

Order No.:

Effective:

Part III. Rate Schedule No. 50

Title: Storm Damage Rider (SDR)

PSC File Mark Only

A. INITIAL RATES

The SDR Rates will initially be determined based on the Excess Storm Costs as of September 30, 2008. The Excess Storm Costs will be allocated by function to determine the amount to be recovered from each rate class. The projected energy sales (kWh) for the 12-month period of January 2009 through December 2009 will be used to calculate the SDR Rates for each rate class. The initial SDR Rates will be implemented with the first billing cycle of January of 2009.

B. REVISED RATES

The initial SDR Rates will be redetermined based on the combined findings of 1) EAI's year-end update of actual storm costs for the last three months of 2008, 2) the APSC Staff's audit of 2008 storm costs, and 3) EAI's 2008 earnings analysis. A final order will be issued by the APSC no later than September 21, 2009 identifying any changes that need to be made to the initial SDR Rates. EAI will file by noon on September 24, 2009, for approval of a revised SDR Rate. The remaining uncollected balance of Excess Storm Costs will be collected over the final three months of 2009 using the projected energy sales (kWh) for that three-month period. Should the Commission's final order result in an over-collection of Excess Storm Cost, the redetermined SDR Rates shall be credit amounts over the final three months of 2009. The redetermined SDR Rates will be implemented with the first billing cycle of October of 2009.

50.4 APSC AUDIT OF DEFERRED STORM DAMAGE COSTS

The APSC General Staff ("Staff") will conduct an audit of EAI's 2008 actual total storm damage restoration expenses and Excess Storm Costs to determine the amount of storm damage restoration expenses eligible for recovery. EAI will make its best efforts to submit costs subject to audit to eliminate all capital costs and to ensure that costs requested for recovery are consistent with the types of costs described in the Direct Testimony of Alice D. Wright filed in Docket No. 08-149-U.

EAI shall comply with the storm cost audit filing requirements contained in Attachment E. EAI will submit storm cost filing information requested by the APSC Staff for audit purposes no later than February 15, 2009, except for invoices related to any major December weather events that could require additional time to process. These documents can be requested and submitted in phases in order to expedite the audit process. The Staff shall endeavor to complete its review of the storm damage restoration expenses by July 31, 2009. EAI, Staff, and Intervenor shall attempt to reach a resolution on any disputed issues by August 14, 2009. The audit dispute resolution procedure will follow the procedural schedule discussed below in § 50.6.

ARKANSAS PUBLIC SERVICE COMMISSION

Original

Sheet No. 50.3

Schedule Sheet 3 of 13
Including Attachments

Replacing:

Sheet No.

Name of Company

Kind of Service: Electric

Class of Service: All

Docket No.: 08-149-U

Order No.:

Effective:

Part III. Rate Schedule No. 50

Title: Storm Damage Rider (SDR)

PSC File Mark Only

50.5 EARNINGS ANALYSIS OF TEST YEAR 2008

On or before May 1, 2009, EAI shall file an earnings analysis for test year 2008 in accordance with Attachments B through D of this Rider. The Staff and any intervenors will have until July 31, 2009 to complete their review of the filing and notify EAI of any necessary corrections to the filing. The parties will attempt to reach resolution on disputed issues by August 14, 2009. Excess earnings, up to the amount of approved Excess Storm Costs, identified by the earnings test shall be used to reduce the remaining Excess Storm Costs balance. If the earnings test reveals no excess earnings, the SDR Rates will not be adjusted as a result of the 2008 earnings analysis.

50.6 FINAL APPROVAL PROCEDURES

If resolution of all issues in both the earnings analysis and the audit is not reached by August 14, 2009, EAI, Staff, and Intervenors shall file initial testimony by August 31, 2009 and rebuttal testimony by September 8, 2009 concerning the amounts that remain in dispute. The disputed issues arising out of the audit and earnings analysis are to be resolved by the Commission. A hearing shall be held on September 15, 2009, and a Commission order addressing the earnings review results and the final amount of Excess Storm Costs shall be entered no later than September 21, 2009.

Following the Commission's order, EAI shall adjust the Excess Storm Costs accordingly and file for approval of a revised SDR Rate as described in § 50.3.B.

50.7 TERM

The SDR Rate for individual rate classes shall become effective with the first billing cycle of January of 2009 and shall remain in effect until all deferred O&M storm costs have been billed to that rate class.

(NR)

ATTACHMENT A

(NR)

RIDER SDR RATES

The Net Monthly Rates set forth in EAI's schedules identified below will be adjusted by the following Rate Adjustment amounts:

<u>Rate Class</u>	<u>Rate Schedules</u>	<u>Rate Adjustment</u>
Residential	RS, RT	\$0.00177 per kWh
Small General Service	SGS,GFS, L2, MP, AP, CGS CTV, SMWHR	\$0.00154 per kWh
Large General Service	LGS, LPS, GST PST, SSR	\$0.00054 per kWh
Lighting	L1, L1SH, L4	\$0.00101 per kWh

Note: Refer to workpapers for functional allocation of costs by each rate class.

Docket No.: 08-149-U

Order No.:

Effective:

Attachment B

Rate Schedule No. 50

Page 1 of 4: Schedule Sheet 5 of 13

ENTERGY ARKANSAS, INC. EARNINGS ANALYSIS FOR YEAR ENDING DECEMBER 31, 2008 (\$000'S OMITTED)			
LINE NO	DESCRIPTION	ARKANSAS RETAIL	SOURCE
1	RATE BASE		Page 2, Line 24
2	RATE OF RETURN ON RATE BASE	5.58%	See Note A
3	REQUIRED OPERATING INCOME		Line 1 * Line 2
4	NET UTILITY OPERATING INCOME		Page 3, Line 30
5	OPERATING INCOME DEFICIENCY/(EXCESS)		Line 3 minus Line 4
6	REVENUE CONVERSION FACTOR	1.60785	See Note B
7	REVENUE DEFICIENCY/(EXCESS)		Line 5 * Line 6
8	JURISDICTIONAL SPECIFIC REV REQUIREMENT		See Note C
9	TOTAL REVENUE DEFICIENCY/(EXCESS)		Line 7 plus Line 8

NOTES:

(A) RATE OF RETURN ON RATE BASE IS THE RETURN FROM DOCKET NO. 06-101-U

(B) REVENUE CONVERSION FACTOR IS THE REVENUE CONVERSION FACTOR FROM DOCKET NO. 06-101-U

(C) REVENUE REQUIREMENT FOR JURISDICTIONAL SPECIFIC ITEMS NOT INCLUDED IN BASE RATES (i.e., OUACHITA PLANT ACQUISITION REVENUE REQUIREMENT AS CALCULATED IN RIDER CA).

ENTERGY ARKANSAS, INC. RATE BASE FOR YEAR ENDING DECEMBER 31, 2008 (\$000'S OMITTED)							
LINE NO	DESCRIPTION	PER BOOKS	ADJUSTMENTS(A)	ADJUSTED AMOUNT	ALLOCATION FACTOR (B)	AR RETAIL	SOURCE FOR PER BOOKS DATA
	NET UTILITY PLANT						
1	GROSS PLANT IN SERVICE						
2	PRODUCTION						Accts. 310 - 347 (See Note C)
3	TRANSMISSION						Accts. 350 - 359 (See Note C)
4	DISTRIBUTION						Accts. 360 - 374 (See Note C)
5	GENERAL PLANT						Accts. 389 - 399 (See Note C)
6	INTANGIBLE PLANT						Accts. 301 - 303 (See Note C)
7	TOT GROSS PLANT IN SERVICE						Sum of Lines 2 - 6 (See Note D)
8	ACCUMULATED DEPRECIATION						
9	PRODUCTION						Accts. 310 - 347 (See Note C)
10	TRANSMISSION						Accts. 350 - 359 (See Note C)
11	DISTRIBUTION						Accts. 360 - 374 (See Note C)
12	GENERAL PLANT						Accts. 389 - 399 (See Note C)
13	INTANGIBLE PLANT						Accts. 301 - 303 (See Note C)
14	TOTAL ACCUM DEPRECIATION						Sum of Lines 9 - 13
15	NET UTILITY PLANT						Line 7 + Line 14
16	WORKING CAPITAL ASSETS						
17	FUEL INVENTORY						Accts 120, 151 & 152 (See Note E)
18	MATERIALS & SUPPLIES						Accts 154 & 163 (See Note E)
19	PREPAYMENTS						Acct 165 (See Note E)
20	INVESTMENT IN SFI						N/A (See Note E)
21	WORKING CASH						N/A (See Note E)
22	TOT WORKING CAPITAL ASSETS						Sum of Lines 17 - 21
23	OTHER (F)						
24	RATE BASE						Sum of Lines 15, 22, and 23

NOTES:

(A) ADJUSTMENTS DEFINED IN ATTACHMENT C

(B) RETAIL ALLOCATION FACTORS FROM DOCKET NO. 06-101-U

(C) AVERAGE USING BEGINNING AND ENDING YEAR BALANCES

(D) INCLUDES ACCOUNTS 101, 102, AND 106 EXCEPT FOR ACCOUNT 101.1

(E) 13 MONTH AVERAGE BALANCES. SUPPORT FOR WORKING CAPITAL ASSETS SHALL BE PROVIDED IN THE SAME FORMAT AND LEVEL OF DETAIL REQUIRED BY MINIMUM FILING REQUIREMENT SCHEDULES B-4 AND B-5.

(F) INCLUDED PURSUANT TO SECTION 6 OF ATTACHMENT C

ENTERGY ARKANSAS, INC. OPERATING INCOME STATEMENT FOR YEAR ENDING DECEMBER 31, 2008 (\$000'S OMITTED)							
LINE NO	DESCRIPTION	PER BOOKS	ADJUSTMENTS(A)	ADJUSTED AMOUNT	DIRECT ASSIGNMENT AND/ OR ALLOCATION FACTOR (B)	AR RETAIL	SOURCE FOR PER BOOKS DATA
	REVENUES						
	RATE SCHEDULE REVENUES						
1	RETAIL SALES						Accts. 440, 442.1, 442.2, 444, 445
2	WHOLESALE SALES						Acct. 447 excl 447.001, 447.002, 447.005, 447.115, & 447.116
3	TOTAL RATE SCHEDULE REVENUES						Sum of Lines 1 - 2
	SYSTEM SALES						
4	ENTERGY POWER POOL SALES						Accts. 447.001, 447.116
5	SYSTEM SALES TO OTHERS						Acct. 447.002
6	IMPUTED TRANS REVENUES						Acct. 447.005
7	RESOURCE PLAN REVENUE						Acct. 447.115
8	TOTAL SYSTEM SALES						Sum of Lines 4 - 7
9	OTHER OPERATING REVENUES						Accts 450, 451, 454, 456, 459
10	TOTAL OPERATING REVENUES						Sum of Lines 3, 8, and 9
	EXPENSES						
	OPERATION & MAINTENANCE						
11	PRODUCTION						Accts. 500 - 557
12	TRANSMISSION						Accts. 560 - 573
13	DISTRIBUTION						Accts. 580 - 598
14	CUSTOMER ACCOUNTS						Accts. 901 - 905
15	CUSTOMER SERVICE & INFO						Accts. 906 - 910
16	SALES						Accts. 911 - 917
17	ADMINISTRATIVE & GENERAL						Accts. 920 - 935
18	TOTAL O&M EXPENSE						Sum of Lines 11 - 17
19	GAIN FROM DISP OF ALLOWANCES						Acct. 411.8
20	REGULATORY DEBITS/ CREDITS						Acct. 407
21	DEPR, AMORT, DECOM & ACCR EXP						Acct 403, 404, 411.1
22	TAXES OTHER THAN INCOME						Acct. 408
23	STATE INCOME TAX						Page 4, Line 15
24	FEDERAL INCOME TAX						Page 4, Line 23
25	PROV DEF INC TAX - STATE - NET						Accts. 410.1, 411.1
26	PROV DEF INC TAX - FED - NET						Accts. 410.1, 411.1
27	INVESTMENT TAX CREDIT - NET						Acct. 411.4
28	OTHER						See Note C
29	TOT UTILITY OPERATING EXP						Sum of Lines 18 - 28
30	NET UTILITY OPERATING INCOME						Line 10 minus Line 29

NOTES: (A) ADJUSTMENTS DEFINED IN ATTACHMENT C
 (B) RETAIL ALLOCATION FACTORS FROM DOCKET NO. 06-101-U
 (C) INCLUDED PURSUANT TO SECTION 6 OF ATTACHMENT C

ENTERGY ARKANSAS, INC. INCOME TAX CALCULATION FOR YEAR ENDING DECEMBER 31, 2008 (\$000'S OMITTED)							
LINE NO	DESCRIPTION	PER BOOKS	ADJUSTMENTS(A)	ADJUSTED AMOUNT	DIRECT ASSIGNMENT AND/ OR ALLOCATION FACTOR (B)	AR RETAIL	SOURCE FOR PER BOOKS DATA
1	TOTAL OPERATING REVENUES						Page 3, Line 10
2	TOTAL O&M EXPENSE						Page 3, Line 18
3	GAIN FROM DISP OF ALLOWANCES						Page 3, Line 19
4	REGULATORY DEBITS AND CREDITS						Page 3, Line 20
5	DEPREC, AMORT, DECOM & ACCR EXP						Page 3, Line 21
6	TAXES OTHER THAN INCOME						Page 3, Line 22
7	NET INCOME BEFORE INCOME TAXES						Line 1 minus sum of Lines 2 - 6
8	ADJUST TO NET INC BEFORE TAX						Tax Department
9	TAXABLE INCOME						Line 7 + Line 8
	COMPUTATION OF STATE INC TAX						
10	STATE TAXABLE INCOME						Line 9
11	STATE ADJUSTMENTS TO NET INCOME						Tax Department
12	TOTAL STATE TAXABLE INCOME						Sum of Lines 10 - 11
13	STATE INCOME TAX BEFORE ADJUST						Line 12 * Eff State Tax Rate (Note C)
14	ADJUSTMENTS TO STATE TAX						Tax Department
15	STATE INCOME TAX						Line 13 + Line 14
	COMPUTATION OF FED INC TAX						
16	TAXABLE INCOME						Line 9
17	STATE INCOME TAX						Line 15 (shown as deduction)
18	MANUFACTURING DEDUCTION						See Note D
19	FEDERAL ADJUSTMENTS						Tax Department
20	TOTAL FEDERAL TAXABLE INCOME						Sum of Lines 16 - 19
21	FEDERAL INC TAX BEFORE ADJUST						Line 20 * Federal Tax Rate (Note C)
22	ADJUSTMENTS TO FEDERAL TAX						Tax Department
23	FEDERAL INCOME TAX						Line 21 + Line 22

NOTES:

- (A) Adjustments defined in Attachment C
- (B) Retail Allocation Factors from Docket No.06 -101-U
- (C) The tax rate in effect during the Earnings Analysis Period shall be utilized.
- (D) Defined in Attachment C, Section 3.E
- (E) The following information should be included in Annual filing workpapers:
- (1) A complete "separate return" basis calculation of current federal and state income taxes for the Earnings Analysis period, starting with book recorded net income and showing all book-tax timing differences (both temporary and permanent differences), taxable income, income tax, and all credits.
- (2) A complete calculation of all state and federal deferred income tax expense for the Earnings Analysis period showing all book-tax timing differences (both temporary and permanent differences) necessary to reconcile book net income and taxable income for the Earnings Analysis period. Provide an explanation for each such temporary and permanent difference. Specifically identify and explain in detail all new differences which have arisen for the first time in the Earnings Analysis period. Identify which differences have been used in the calculation of deferred income tax expense for the Earnings Analysis period. For each book-tax difference that was not used in the calculation of deferred income tax expense for Earnings Analysis period revenue requirement determination purposes (i.e., for ratemaking purposes), explain why that book-tax difference was not included in that calculation.

ENTERGY ARKANSAS, INC. EARNINGS ANALYSIS ADJUSTMENTS

Actual (per book) data for each Earnings Analysis Period, as reflected in Attachment B, shall be adjusted to reflect various ratemaking adjustments. These adjustments are to be prepared in a manner consistent with those in the Docket No. 06-101-U¹ compliance cost-of-service study. Due to the annual nature of the Earnings Analysis, forward-looking adjustments shall not be made. Similarly, adjustments for weather and customer growth shall not be made. The adjustments to be made are more specifically set out below:

1. Special Riders

a. Exact Recovery Riders

The rate base, revenue and expense effects associated with exact recovery riders that Entergy Arkansas, Inc. may have in effect during the Earnings Analysis Period shall be eliminated. Exact recovery riders include riders such as Grand Gulf (Rider GGR), ANO Nuclear Decommissioning Cost (Rider NDCR), Energy Cost Recovery Rider (Rider ECR), Energy Efficiency Cost Recovery Rider (EECR), and any other exact recovery riders that are approved by the Commission.

b. Arkansas Jurisdictional Specific Revenue Requirement

The rate base and expense effects associated with Arkansas Jurisdictional Specific Revenue Requirement (i.e., the revenue requirement associated with EAI's Rider CA) shall be separately identified and reported on Attachment B, page 1, line 8. The rate revenues associated with the Arkansas Jurisdictional Specific Revenue Requirement shall be reported on Attachment B, page 3, line 1.

2. Interest Synchronization

All Earnings Analysis Period interest expenses are to be eliminated and replaced with an imputed interest expense amount equal to the Earnings Analysis Period rate base multiplied by the weighted cost of debt rate from Docket No. 06-101-U.

3. Income Taxes

All state and federal income tax effects including 1) adjustments to taxable income, 2) adjustments to current taxes, 3) provisions for deferred income tax (debit and credit), and 4) accumulated provision for deferred income tax (debit and credit) shall be adjusted or eliminated, as appropriate, to comport with the following principles:

- A) Effects associated with other adjustments set out in this Attachment C shall similarly and consistently be adjusted.
- B) All effects associated with the difference in the timing of transactions, where the underlying timing difference is eliminated, shall also be eliminated.

¹ All references to Docket No. 06-101-U included herein shall be subject to any subsequent final ruling of the Arkansas Court of Appeals or any other court of competent jurisdiction.

- C) The corporate state and federal income tax laws legally in effect during the Earnings Analysis Period shall be reflected in the calculation of all income tax amounts.
- D) Items normally treated on a "flow-through" basis shall be similarly treated in each Earnings Analysis in accordance with prior Commission directives. Conversely, items that are normally reflected on a "normalized" basis shall be similarly treated in each Earnings Analysis.
- E) Manufacturing Deduction is a deduction to income attributable to domestic production activities created by the American Jobs Creation Act of 2004 as discussed in Section 199, Income Attributable to Domestic Production, of the Internal Revenue Code. It allows up to a 9% deduction of taxable income or income from qualifying production activities. The deduction is phased in through 2010 and is 6% for 2007 through 2009 and will be 9% for 2010 and after.

4. Ratemaking Adjustments

- A. Items not allowable for ratemaking purposes in Docket No. 06-101-U shall be removed from the Earnings Analysis Period data by appropriate adjustments.
- B. Items that were allowed in Docket No. 06-101-U, but recorded below the utility operating income line, shall be included in the Earnings Analysis Period cost data through appropriate reclassification adjustments.
- C. Revenue and costs effects that were imputed in Docket No. 06-101-U shall be similarly imputed for each Earnings Analysis through appropriate adjustments.
- D. All other ratemaking adjustments adopted by the Commission in its final order in Docket No. 06-101-U and not addressed in 4.A-C above shall be made, except weather and growth adjustments shall not be included.

5. Out-of-Period Items

Expenses and revenues recorded in any Earnings Analysis Period that are related to transactions occurring prior to the initial Earnings Analysis Period (January 1, 2008) shall be eliminated by adjustment from the Earnings Analysis Period cost data. This shall include any associated tax adjustments.

6. Other

Nothing in the Storm Damage Rider or Earnings Analysis shall preclude the Company or the Staff from proposing additional adjustment(s) beyond those described in Adjustments 1-5. However, if such adjustments are proposed, they shall be consistent with the general philosophy and structure of this Earnings Analysis.

EARNINGS ANALYSIS PERIOD FINANCIAL AND STATISTICAL FILING REQUIREMENTS

The financial and statistical data set out below shall be provided for the Earnings Analysis Period:

A. Historical Accounting Data

1. Identify and explain any significant changes in policies during the Earnings Analysis Period.
2. Provide 13 months of trial balances including the beginning Earnings Analysis Period and each month in the Earnings Analysis Period for all general ledger sub-accounts (101.xxx – 935.xxx). If not already submitted FERC Form 1 for 2008 should be submitted. The general ledger subaccounts should be subtotaled by FERC account and the beginning of the year and end of the year amounts should be reconciled to FERC Form 1.
3. Provide a Microsoft Access database of all general ledger accounting activity for each month in the Earnings Analysis Period.
4. Provide an Accounts Payable ledger for the Earnings Analysis Period sorted by vendor name, FERC expense account(s), and sub-account (if applicable).
5. Provide balances for the "300" series plant accounts for the beginning of the Earnings Analysis Period and each month in the Earnings Analysis Period and, in additional columns, the accumulated depreciation balances by each "300" series plant account for the beginning of the Earnings Analysis Period and each month in the Earnings Analysis Period. Reconcile to the utility plant accounts.
6. Provide O&M expense totals for the Earnings Analysis Period by activity code, resource code, account, project code (if applicable), and bill resource code (if applicable).

B. Trend Analysis

1. Present a five-year trend analysis calculating the average balance by FERC Account for expenses for the five-year period ending with the Earnings Analysis Period. Identify and explain all significant changes in accounting procedures during the Earnings Analysis Period. For any accounting reclassifications identified in the accounting changes, align and reconcile accounts that reflect accounting changes in order to consistently track the accounting change through the five-year trend.
2. Identify and explain changes between the Earnings Analysis Period costs and the five-year average by FERC Account for all variances greater than 30% and \$500,000, excluding Fuel and Purchased Power costs that are recovered through separate recovery riders. Provide separate variance explanations for affiliate charges and EAI direct costs. The explanation must include the specific underlying reason for the variance. Simply noting a change in charges is an insufficient explanation. For the variances for which an explanation is provided, present a five-year trend analysis calculating the average balance by FERC Account for expenses, excluding payroll and benefits expenses, for the five-year period ending with the Earnings Analysis Period.

C. Affiliate Charges

1. Provide an analysis by EAI expense account (separate line for each account) showing separate columns for:
 - (a) Amounts billed, segregated between direct and allocated, from each affiliated company with a separate column for each affiliate.
 - (b) Amounts directly incurred by EAI for its own operations.
 - (c) All other amounts in the account not corresponding to (a) or (b). Provide an explanation of all items in this "all other amounts" column that are for anything other than rounding differences.
 - (d) The sum of columns (a) through (c) which would equal the account's general ledger balance at the end of the Earnings Analysis Period.
2. Provide a list of all direct project charges from the affiliated service company to EAI that exceeded \$700,000 during the Earnings Analysis Period. List by project code, project description, the affiliated service company's billing method, and amount.
3. Provide a list of all allocated project charges from the affiliated service company to EAI that exceeded \$700,000 during the Earnings Analysis Period. List by project code, project description, the affiliated service company's billing method, and amount.

D. Out-of-Period Items

1. Provide a description of the item and dollar amount, directly or indirectly charged or credited by or to EAI, by account, activity, and/or project of any transaction greater than \$500,000, prior period adjustment including refunds, event, program, or initiative charged to the general ledger for the Earnings Analysis Period that was not usual or is not expected to recur. In addition, provide the costs or savings on any significant transaction, event, program or initiative which occurred in the Earnings Analysis Period that did not occur or was not significant or fully implemented in the prior year. Include the description and financial impact or accounting amount of changes in taxation rates or status, restructuring, downsizing, outsourcing, mergers, consolidations, etc.

2008 STORM COST AUDIT FILING REQUIREMENTS

1. Provide 2008 Storm expense totals for each month by account, activity code, and resource code. Any affiliate charges should be identified separately. Payroll information, including salaried and non-salaried base pay, overtime and related taxes and benefits should be clearly identified—if not, those amounts should be reported separately—broken out by company (eg: EAI and ESI).
2. Provide the amount of incremental 2008 Storm expense for each month by account, activity code, and resource code. Separately identify any base pay, overtime at the percentage included in base rates, routine vegetation management, capitalized amounts and other cost items, identified in the testimony of Alice D. Wright filed in Docket No. 08-149-U.
3. The detailed amounts in paragraph 2 above should be totaled and then show the reduction for the amount currently included in base rates to arrive at the total recovery requested. EAI will make its best efforts to review the costs subject to audit to eliminate all capital costs and to ensure that the costs requested are consistent with the types of costs described in the Direct Testimony of Alice D. Wright filed in Docket No. 08-149-U.
4. Provide a Microsoft Excel spreadsheet of all general ledger accounting activity for each month for the information requested in item 2.
5. Provide 2008 Storm amounts that were capitalized by FERC plant account (300 series).
6. Provide all 2008 expenditures for vegetation management by account, activity code, and resource code, identifying vendor amounts and salary and non-salaried payroll and overtime amounts by company if applicable. Amounts should be classified as storm-related or routine vegetation management.
7. Provide all 2008 revenues received or reductions in EAI expense due to providing mutual assistance to affiliates or other companies.

CERTIFICATE OF SERVICE

I, Laura F. Raffaelli, do hereby certify that a copy of the foregoing has been served upon all parties of record this 3rd day of December, 2008.



Laura F. Raffaelli

DEC 3 1 49 PM '08

BEFORE THE
ARKANSAS PUBLIC SERVICE COMMISSION

FILED

IN THE MATTER OF THE PETITION OF)
ENTERGY ARKANSAS, INC. FOR AN)
ACCOUNTING ORDER AUTHORIZING)
ESTABLISHMENT OF A REGULATORY)
ASSET AND STORM DAMAGE RIDER)

DOCKET NO. 08-149-U

TESTIMONY IN SUPPORT OF
THE STIPULATION AND SETTLEMENT AGREEMENT

OF

STEVEN K. STRICKLAND

VICE PRESIDENT, REGULATORY AFFAIRS

ENTERGY ARKANSAS, INC.

ON BEHALF OF

ENTERGY ARKANSAS, INC.

DECEMBER 3, 2008

1 **I. INTRODUCTION AND BACKGROUND**

2 Q. PLEASE STATE YOUR NAME.

3 A. My name is Steven K. Strickland.

4

5 Q. ARE YOU THE SAME STEVEN K. STRICKLAND WHO SUBMITTED
6 REBUTTAL TESTIMONY IN THIS DOCKET ON NOVEMBER 26, 2008?

7 A. Yes, I am.

8

9 Q. ON WHOSE BEHALF ARE YOU TESTIFYING?

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

12

13 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

14 A. The purpose of my testimony is to support the Stipulation and Settlement
15 Agreement ("Agreement") among the Arkansas Public Service
16 Commission ("APSC" or the "Commission") General Staff ("Staff"), the
17 Arkansas Attorney General ("AG"), and EAI resolving the Company's
18 request for special treatment of its storm restoration expenses in 2008. I
19 will describe the key provisions of the Agreement and explain why it is in
20 the public interest for the Commission to approve the Agreement.

21

22 Q. IS THE COMPANY PROVIDING ANY ADDITIONAL TESTIMONY IN
23 SUPPORT OF THE AGREEMENT?

1 A. Yes. Mr. Oscar D. Washington is sponsoring testimony explaining the
2 revisions in the earnings review mechanism originally proposed by the
3 Company and the mechanism that is contained in the Agreement.
4

5 **II. TERMS OF THE AGREEMENT**

6 Q. PLEASE DESCRIBE THE PROPOSED AGREEMENT.

7 A. The Agreement provides the conditions and terms under which EAI would
8 be allowed to defer and recover the storm damage restoration expenses
9 incurred by the Company during the calendar year 2008 that are above
10 the \$14,449,000 normalized storm damage restoration expense amount
11 used in the development of the Company's currently approved base rates.
12 EAI would implement a surcharge on customers' bills to collect this
13 deferred expense beginning with January 2009 bills and continuing
14 through December 2009. The amount collected would be subject to audit
15 by the Staff. In addition, the Agreement requires EAI to file an earnings
16 report for the calendar year 2008. Any overearnings identified would be
17 used to reduce the balance to be collected. The specific procedures for
18 the audit and the earnings review are described in the proposed EAI Rate
19 Schedule No. 50, Storm Damage Rider ("Rider SDR") attached to the
20 Agreement.
21

22 Q. WHY DID THE COMPANY REQUEST SPECIAL RATE TREATMENT
23 FOR ITS 2008 STORM RESTORATION EXPENSES?

1 A. In Docket No. 06-101-U, the Company's last general rate case, the APSC
2 acknowledged in its Order No. 17 that the \$14.5 million allowed in EAI's
3 base rates "should be adequate to compensate the Company for any
4 'normal' storm restoration costs it may incur. At the same time, the
5 commission also recognizes that 'extraordinary' storm restoration costs
6 are not comprehended within the Company's existing rates. . . .
7 Therefore, if in the performance of its public utility duties and
8 responsibilities under said Rules 4.01(A)(1) and 4.01(B), the Company
9 does experience 'extraordinary' storm restoration costs in any given year,
10 it may petition the Commission for 'extraordinary' financial relief as it did in
11 2001"¹

12
13 Q. HAS THE COMPANY EXPERIENCED EXTRAORDINARY STORM COST
14 EXPENSES IN 2008?

15 A. Yes. Mr. S. Brady Aldy's direct testimony in this Docket explains that the
16 magnitude and frequency of the storms across Arkansas in 2008,
17 including the remnants of two hurricanes, the damage to facilities, and the
18 resulting restoration expense were extraordinary. Staff's and the AG's
19 direct testimonies recognized the extraordinary nature of these weather
20 events. Staff witness Alice D. Wright testified that "EAI's incremental
21 storm expenses are significantly in excess of the normal ongoing level

¹ Docket No. 06-101-U, Order No. 17 at 13-14.

1 included in EAI's current rates."² AG witness William Marcus testified that
2 the "Attorney General acknowledges that EAI did experience an unusually
3 large number of major storm events in 2008."³
4

5 Q. HOW DOES THE AGREEMENT ADDRESS THESE EXTRAORDINARY
6 STORM EXPENSES?

7 A. The Agreement provides for EAI to defer the amount of 2008 storm
8 damage expense above the level provided in the Company's base rates.
9 The retail portion of that deferred amount would be collected from EAI's
10 retail customers over a twelve-month period beginning with the first billing
11 cycle of January 2009.
12

13 Q. DOES THE AGREEMENT INCLUDE ANY MECHANISMS TO ENSURE
14 THAT CUSTOMERS PAY ONLY FOR APPROPRIATE STORM
15 RESTORATION EXPENSES?

16 A. Yes. The Agreement includes several customer protection mechanisms.
17 1. EAI will review the storm expenses and make its best efforts to
18 ensure that the expenses requested for recovery are the
19 appropriate type for recovery as described in Ms. Wright's direct
20 testimony.⁴

² Wright Direct Testimony at 10.

³ Marcus Direct Testimony at 3.

⁴ Wright Direct Testimony at 15.

1 2. The accrued expenses, which make up a portion of the total
2 expense on which the initial rate is based, will be trued up to actual
3 costs.

4 3. The expenses to be recovered are subject to an audit by the Staff.

5 4. The Company will provide an earnings report for its costs and
6 revenues in 2008 based upon a previously approved tariff. Any
7 earnings above its allowed return will be used to offset the amount
8 of storm restoration expenses.

9 5. EAI will monitor the amounts collected from ratepayers pursuant to
10 Rider SDR to ensure that the sum of the total revenue collected
11 does not exceed the total sum of storm costs approved for
12 recovery. Any amount that is over-recovered will be refunded to
13 customers at the end of the recovery period through Rate Schedule
14 No. 38, Energy Cost Recovery Rider, as a credit to overall fuel
15 expense.

16

17 Q. WHAT WOULD BE THE CUSTOMER IMPACT OF THE SURCHARGE
18 TO BE RECOVERED?

19 A. The initial rate for the proposed surcharge would result in an increase of
20 \$1.77 for a typical residential customer using 1,000 kWh in a month. The
21 rate for each rate class varies due to the allocation of the storm expenses
22 to each rate class and the level of sales by class. The rates would be

1 subject to change in response to the results of the audit and earnings
2 review.

3

4 Q. WHY IS APPROVAL OF THE AGREEMENT IN THE PUBLIC INTEREST?

5 A. The APSC has acknowledged that “it is in the best interest of the
6 Company, its ratepayers and public at-large that electric power be
7 restored safely and quickly after storm outages.”⁵ This public interest is
8 reflected in the Commission’s Special Rules – Electric, which require
9 electric utilities to make timely restoration after an outage. Prompt
10 restoration efforts after a major storm come at a cost, which may be
11 extraordinary, and significantly exceed the level allowed in a utility’s base
12 rates, as was the case for EAI in 2008. The Agreement provides for EAI
13 to recover the expenses for these restoration efforts, which furthers the
14 public interest of encouraging safe and timely restoration after major storm
15 events, and provides customer protection mechanisms to ensure that only
16 appropriate costs are recovered.

17

18 Q. DOES THE AGREEMENT ADDRESS THE RECOVERY OF FUTURE
19 EXTRAORDINARY STORM DAMAGE RESTORATION EXPENSES
20 INCURRED BY THE COMPANY?

⁵ Docket No. 07-129-U, Order No. 4; Docket No. 06-152-U, Order No. 11; Docket No. 06-101-U, Order No. 17; Docket No. 04-023-U, Order No. 13 (December 21, 2007) (“Consolidated Order”) at 13.

1 A. No. EAI understands that the Commission intends to address the
2 determination of the regulatory recovery mechanism for years subsequent
3 to 2008 in Docket No. 08-137-U. The Commission indicated in Order
4 No. 1 establishing this Docket that its purpose was to explore and
5 consider innovative approaches to traditional ratebase rate of return
6 regulation including among other things, the methods for the recovery of
7 extraordinary storm damage restoration expenses.⁶ It should be noted
8 that EAI, The Empire District Electric Company, Oklahoma Gas and
9 Electric Company ("OG&E"), and Southwestern Electric Power Company
10 withdrew their joint application for approval of a storm cost accounting
11 methodology and a storm damage rider to address extraordinary storm
12 restoration costs filed in Docket No. 08-091-U based on their
13 understanding of the Commission's intent to address the same public
14 policy issues associated with the recovery of extraordinary storm costs in
15 Docket No. 08-137-U. Because the timing of the APSC's deliberation on
16 innovative ratemaking was not likely to be concluded by the end of 2008,
17 EAI and OG&E have petitioned the APSC in separate dockets for specific
18 treatment for the extraordinary storm restoration costs experienced in
19 2008 to avoid significant and negative financial impact.

20

⁶ Docket No. 08-137-U, Order No. 1 at 7.

1 **III. SUMMARY AND CONCLUSION**

2 Q. PLEASE SUMMARIZE YOUR TESTIMONY.

3 A. The proposed Agreement effectively resolves the issues of the parties
4 related to EAI's Application for Approval of Storm Cost Recovery
5 Accounting and Storm Damage Rider in Docket No. 08-149-U. The
6 Agreement addresses EAI's 2008 extraordinary storm damage restoration
7 expenses in a way that levelizes the impact on customers over twelve
8 months and provides customer protection mechanisms, including an
9 earnings analysis to provide for the offset of any excess earnings for 2008
10 against storm damage restoration costs to be recovered and for an audit
11 of EAI's 2008 storm expenses so that only appropriate costs are included
12 for recovery. In addition, the Agreement provides the Company's
13 investors responsible treatment of the costs incurred in restoring service
14 during 2008. I encourage the Commission to find that the Agreement is in
15 the public interest and approve it.

16
17 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

18 A. Yes, it does.

CERTIFICATE OF SERVICE

I, Laura F. Raffaelli, do hereby certify that a copy of the foregoing has been served upon all parties of record this 3rd day of December, 2008.


Laura F. Raffaelli

DEC 3 1 49 PM '08

BEFORE THE
ARKANSAS PUBLIC SERVICE COMMISSION

FILED

IN THE MATTER OF THE PETITION OF)
ENTERGY ARKANSAS, INC. FOR AN)
ACCOUNTING ORDER AUTHORIZING)
ESTABLISHMENT OF A REGULATORY)
ASSET AND STORM DAMAGE RIDER)

DOCKET NO. 08-149-U

TESTIMONY IN SUPPORT OF
THE STIPULATION AND SETTLEMENT AGREEMENT

OF

OSCAR D. WASHINGTON

MANAGER OF REVENUE REQUIREMENTS AND ANALYSES

ENTERGY SERVICES, INC.

ON BEHALF OF

ENTERGY ARKANSAS, INC.

DECEMBER 3, 2008

1 **I. INTRODUCTION AND BACKGROUND**

2 Q. PLEASE STATE YOUR NAME.

3 A. My name is Oscar D. Washington.

4

5 Q. ARE YOU THE SAME OSCAR D. WASHINGTON WHO SUBMITTED
6 DIRECT TESTIMONY IN THIS DOCKET ON OCTOBER 15, 2008?

7 A. Yes, I am.

8

9 Q. ON WHOSE BEHALF ARE YOU TESTIFYING?

10 A. I am testifying on behalf of Entergy Arkansas, Inc. ("EAI").

11

12 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

13 A. The purpose of my testimony is to support the Stipulation and Settlement
14 Agreement ("Agreement") among the Arkansas Public Service
15 Commission ("APSC" or the "Commission") General Staff ("Staff"),
16 Arkansas Attorney General ("AG"), and EAI. I will describe the revisions
17 pertaining to the earnings analysis procedures incorporated in the Storm
18 Damage Rider ("Rider SDR"), which is attached to the Agreement,
19 reflecting the Agreement of the parties as compared to the tariff I
20 sponsored in my direct testimony.

21

1 **II. EARNINGS ANALYSIS REVISIONS**

2 Q. WHAT WAS THE BASIS FOR THE EARNINGS REVIEW THAT EAI
3 PROPOSED IN ITS DIRECT TESTIMONY?

4 A. The earnings review procedure was based upon the Regulatory Earnings
5 Review Tariff ("RERT") that the APSC approved in Docket No. 96-360-U.
6 This procedure was used to conduct earnings reviews for the years 1997
7 through 2001 as part of a stranded cost mitigation mechanism approved
8 by the APSC in that Docket.

9
10 Q. WHAT REVISIONS HAVE BEEN INCORPORATED INTO THE
11 EARNINGS REVIEW MECHANISM THAT IS PART OF THE
12 AGREEMENT?

13 A. The earnings review procedure that is part of the Agreement revises the
14 RERT procedure to reflect the rate of return on rate base ("RORB") and
15 update adjustments and other factors consistent with the APSC's decision
16 in Docket No. 06-101-U, and provides for adjustments to reflect Arkansas
17 jurisdictional specific revenue requirements such as the Ouachita Plant
18 costs. In addition, the earnings review procedure reflects the use of
19 average rate base, the use of functional cost allocation factors to develop
20 Arkansas jurisdictional revenue requirement, and the addition of specific
21 filing requirements for supporting financial and statistical information.

22 Other changes modified the timeline of the earnings review. EAI
23 will file its Earnings Report on or before May 1, 2009. The Staff and

1 intervenors shall complete their review of the filing by July 31, 2009. All
2 parties shall attempt to reach a resolution on any disputed issues by
3 August 14, 2009. The timeline for the resolution of disputes arising out of
4 the audit and the earnings review were combined into a consolidated
5 procedural schedule. After completion of the earnings review and audit,
6 all parties will submit their initial testimony by August 31, 2009. Rebuttal
7 testimony by all parties shall be filed by September 8, 2009. A hearing
8 shall be held on September 15, 2009 with a Commission order addressing
9 the earnings review results and final amount of deferred excess storm
10 costs entered no later than September 21, 2009. Upon receiving the
11 order, EAI shall adjust the 2008 excess storm cost accordingly and file for
12 approval of a revised surcharge designed to complete the collection of the
13 2008 actual storm costs by the end of 2009. The filing by EAI will be by
14 noon on September 24, 2009. An order by the Commission addressing
15 the revised surcharge would need to be entered no later than
16 September 28, 2009 in order to provide sufficient time to implement the
17 revised surcharge by the first billing cycle of October 2009.

18
19 Q. WHY ARE THESE REVISIONS APPROPRIATE?

20 A. They provide further specificity for the overall process of how the earnings
21 review of EAI's 2008 costs and revenues and its 2008 storm restoration
22 expenses will be conducted. This includes more definitive schedules for
23 the various steps in these processes, as well as a set schedule for the

1 resolution of any disputed issues that may arise in the audit or earnings

2 review.

3

4 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

5 A. Yes, it does.

CERTIFICATE OF SERVICE

I, Laura F. Raffaelli, do hereby certify that a copy of the foregoing has been served upon all parties of record this 3rd day of December, 2008.


Laura F. Raffaelli

Dec 3 2 14 PM '08

BEFORE THE
ARKANSAS PUBLIC SERVICE COMMISSION

FILED

IN THE MATTER OF THE JOINT PETITION OF)
ENTERGY ARKANSAS, INC. FOR AN)
ACCOUNTING ORDER AUTHORIZING)
ESTABLISHMENT OF A REGULATORY)
ASSET AND STORM DAMAGE RIDER)

DOCKET NO. 08-149-U

TESTIMONY IN SUPPORT OF THE STIPULATION AND SETTLEMENT AGREEMENT

OF

ALICE D. WRIGHT
DIRECTOR OF COST ALLOCATION AND RATE DESIGN

ON BEHALF OF THE GENERAL STAFF OF THE
ARKANSAS PUBLIC SERVICE COMMISSION

DECEMBER 3, 2008

INTRODUCTION

1
2 **Q. Will you please state your name and business address?**

3 **A. My name is Alice D. Wright and my business address is P.O. Box 400, Little**
4 **Rock, Arkansas 72203-0400.**

5 **Q. Are you the same Alice D. Wright who filed testimony in this docket on**
6 **November 12, 2008?**

7 **A. Yes.**

8 **PURPOSE OF TESTIMONY**

9 **Q. What is the purpose of your testimony at this time?**

10 **A. The purpose of my testimony is to support the Stipulation and Settlement**
11 **Agreement (Agreement) filed in this docket.**

12 **Q. Please describe your role and responsibilities as they related to the issues in**
13 **this docket.**

14 **A. I served as the Staff Project Manager in this docket and as such have primary**
15 **responsibility for the development of Staff's position. I have previously presented**
16 **testimony before the Commission addressing various accounting, revenue**
17 **requirement, cost allocation, rate design, and other rate-related and policy matters.**
18 **Most specifically related to the recovery of storm costs, I served as the project**
19 **manager and filed testimony in Docket No. 01-084-U, Entergy Arkansas Inc.'s**
20 **(EAI's) request for approval of a storm recovery rider, and in Docket No. 01-296-**
21 **U, EAI's request for approval to use the Transition Cost Account Funds to pay for**
22 **its 2000/2001 ice storm costs. Also, as a member of Staff's management team, I**
23 **assisted in the development of Staff's position regarding the recovery of storm**
24 **costs in Docket No. 06-101-U, EAI's most recent rate case. I also served as the**

1 project manager for Docket No. 08-091-U, a joint application filed by the
2 investor-owned electric companies for approval of storm cost accounting and
3 recovery procedures, and for Docket No. 08-064-U, The Empire District Electric
4 Company's request for approval to defer extraordinary storm costs.

5 **STIPULATION AND SETTLEMENT AGREEMENT**

6 **Q. Does the Agreement fully reflect each of the recommendations you made in**
7 **your Direct Testimony?**

8 **A. Yes, it includes all of my recommendations as summarized on pages 4 and 5 of**
9 **my Direct Testimony.**

10 **Q. What principal factors did you consider in evaluating whether the utility's**
11 **proposal to recover extraordinary storm costs is both fair and reasonable to**
12 **ratepayers?**

13 **A. As outlined on page 10 of my Direct Testimony (lines 7-14), the principal factors**
14 **considered were to ensure the utility's proposal resulted in neither unnecessary**
15 **and unwarranted rate increases nor customers paying excessive costs.**

16 **Q. Please provide an overview of the Agreement.**

17 **A. The parties to the Agreement are Staff, the Arkansas Attorney General, and EAI ,**
18 **and represent the only parties that have made recommendations in this case. The**
19 **Arkansas Electric Energy Consumers, the only other party in the docket, has**
20 **indicated that it does not oppose the settlement.**

21 The purpose of the Agreement is to resolve all outstanding issues in this
22 docket. Consistent with the recommendations contained in my Direct Testimony,
23 the Agreement allows EAI to: 1) defer the storm restoration expenses it incurs
24 during the calendar year 2008 that are in excess of the "normal" storm expense

1 amount used in the development of the Company's currently approved base rates
2 (incremental storm expenses), and 2) implement a new rate mechanism (Rider
3 SDR) which is designed to recover from ratepayers, over a twelve-month period,
4 the incremental storm expenses. As recommended in my Direct Testimony, the
5 Agreement does *not* provide for the application of carrying charges to the balance
6 of the deferred storm expenses. Also, consistent with the recommendations made
7 in my Direct Testimony, the Agreement reflects the appropriate accounting
8 treatment of the deferred incremental storm expenses, the refinements to the
9 calculations that will be used in the determination of EAI's 2008 earnings, a more
10 appropriate timeline to review EAI's 2008 earnings and to audit EAI's 2008 storm
11 costs, and the minimum filing requirements for the review of EAI's 2008 earnings
12 analysis and Staff's audit of EAI's 2008 storm costs.

13 **Q. Please discuss the provisions of the Agreement that specifically address the**
14 **accounting treatment and ratemaking treatment of EAI's 2008 incremental**
15 **storm expenses.**

16 **A.** The accounting treatment of the deferred incremental storm expenses is addressed
17 in Section II.A. of the Agreement, while the ratemaking treatment of the deferred
18 incremental storm expenses is addressed in Sections II.B through II.E. The
19 accounting treatment of the deferred incremental storm expenses as provided for
20 in the Agreement is consistent with the recommendation contained in my Direct
21 Testimony, in that the incremental storm expenses of approximately \$26.295
22 million will be recorded in Federal Energy Regulatory Commission account 186,
23 Miscellaneous Deferred Debits. The Agreement provides for the recovery of the
24 deferred incremental storm expenses through a new rate mechanism, Rider SDR

1 which is attached to the Agreement, over a twelve-month period. Consistent with
2 the recommendation contained in my Direct Testimony, Rider SDR was revised
3 to reflect the removal of the provisions which provided for the application of
4 carrying charges to the balance of the deferred storm expenses. The initial SDR
5 rates are shown in Attachment A of Rider SDR.

6 **Q. What is the purpose of Section II.F. of the Agreement.**

7 **A. As explained in my Direct Testimony, an analysis of EAI's 2008 earnings is**
8 necessary to help ensure that permitting the recovery of the incremental storm
9 expenses does not result in unnecessary and unwarranted rate increases. Section
10 II.F. of the Agreement requires EAI to file an earnings report for the calendar year
11 2008 using the procedures specified in Attachments B through D of Rider SDR.
12 As provided for in the Agreement, the excess earnings, if any, will be used to
13 reduce the balance of the deferred incremental storm expenses. If the deferred
14 incremental storm expenses previously collected through the initial surcharge
15 exceeds the remaining deferred balance, the amount of the excess will be
16 refunded to customers through Rider SDR by no later than December 31, 2009.

17 **Q. What is the timetable for completing the analysis of EAI's 2008 earnings?**

18 **A. The timetable for completing the analysis of EAI's 2008 earnings is set forth in**
19 Section II.G. of the Agreement. EAI will file the report by May 1, 2009; Staff
20 and any intervenors will complete their review of the filing by July 31, 2009; and
21 the parties will attempt to reach a resolution on any disputed issues by August 14,
22 2009.

1 Q. In your Direct Testimony, you recommended that the Commission direct
2 EAI to make a good faith effort to eliminate certain categories of costs from
3 its storm request. Does the Agreement comprehend that recommendation?

4 A. Yes. This recommendation is comprehended in Section II.H. of the Agreement.

5 Q. What is the timetable for completing Staff's audit of EAI's 2008 storm costs?

6 A. The timetable for completing the analysis of EAI's 2008 storm costs is set forth in
7 Section II.I. of the Agreement. EAI will provide the storm cost information using
8 the filing requirements delineated in Attachment E of Rider SDR by no later than
9 February 15, 2009; Staff will endeavor to complete its audit by no later than July
10 31, 2009; and the parties will attempt to reach a resolution on any disputed issues
11 by August 14, 2009.

12 Q. What happens if there are disputed issues related to either the analysis of
13 EAI's 2008 earnings or the audit of EAI's 2008 storm costs that the parties
14 are unable to resolve?

15 A. In the event that there are unresolved issues related to either analysis of EAI's
16 2008 earnings or the audit of EAI's 2008 storm costs, Section II.J. of the
17 Agreement set forth a proposed procedural schedule to address those issues. The
18 initial testimony of the parties will be filed by August 31, 2009; the rebuttal
19 testimony of the parties will be filed by September 8, 2009; a hearing will be held
20 on September 15, 2009; and a Commission order will be entered by September
21 21, 2009. As provided for in Section II.K. of the Agreement, the Rider SDR rates
22 will be subsequently revised to reflect the resolution of the disputed issues as
23 ordered by the Commission.

24

1 **CONCLUSION AND RECOMMENDATION**

2 **Q. Why do you consider the Agreement to be in the public interest?**

3 **A. The provisions of the Agreement are consistent with all of the recommendations**
4 **contained in my Direct Testimony. Therefore, for the reasons set forth in my**
5 **Direct Testimony, adoption of the Agreement is in the public interest.**

6 **Q. What is your recommendation?**

7 **A. Given the clearly unique circumstances of the Company during 2008, including:**
8 **1) the frequency and unusual nature of the storms experienced in the Company's**
9 **service territory during the first nine months of 2008,¹ 2) the magnitude of the**
10 **storm expenses incurred by the Company during the first nine months of 2008,**
11 **approximately \$40.7 million, 3) the magnitude of the incremental storm expenses**
12 **incurred by the Company during the first nine months of 2008, approximately**
13 **\$26.3 million which is significantly greater than the normal, ongoing level**
14 **included in EAI's rates, 4) the proximity of the Company's last rate case and the**
15 **implementation of the resulting rates² coupled with the earnings test proposed by**
16 **the Company, and 5) the absence of a pending rate case for the Company in which**
17 **the incremental storm expenses could be addressed, I recommend that the**
18 **Commission approve the Agreement.**

19 **Q. Does this complete your testimony?**

20 **A. Yes.**

¹ Company witness S. Brady Aldy states in his Direct Testimony that the Company has experienced a "variety of weather events during 2008 including high winds, tornados, ice and snow, and hurricanes. (See Aldy's Direct Testimony, pages 4-5.)

² Because the base rates resulting from the Company's most recent rate case, Docket No. 06-101-U, became effective on June 15, 2007, 2008 will be the first full calendar year in which the new rates will have been in effect.

CERTIFICATE OF SERVICE

I certify that a copy of the foregoing has been delivered to the parties of record by hand-delivery, electronic mail, and/or first-class mail, postage prepaid, this 3rd day of December 2008.


Valerie F. Boyce

Dec 3 12 36 PM '08

BEFORE THE ARKANSAS PUBLIC SERVICE COMMISSION

**IN THE MATTER OF THE PETITION OF)
ENTERGY ARKANSAS, INC. FOR AN)
ACCOUNTING ORDER AUTHORIZING)
ESTABLISHMENT OF A REGULATORY)
ASSET AND STORM DAMAGE RIDER)**

Docket No. 08-149-ED

**TESTIMONY OF
WILLIAM B. MARCUS
SUPPORTING THE
PROPOSED STIPULATION AND SETTLEMENT AGREEMENT**

on behalf of

THE ARKANSAS ATTORNEY GENERAL

December 3, 2008

1 **ARKANSAS PUBLIC SERVICE COMMISSION**
2 **DOCKET NO. 08-149-U**

3
4 **TESTIMONY OF WILLIAM B. MARCUS**
5 **ON BEHALF OF THE ARKANSAS ATTORNEY GENERAL**

6 **Q. Please state your name, position and business address.**

7 A. I am William B. Marcus. I am Principal Economist for JBS Energy, Inc., 311 D
8 Street, West Sacramento, California 95605.

9 **Q. Are you the same William B. Marcus who filed Direct Testimony in this**
10 **Docket on behalf of the Arkansas Attorney General's Office on November**
11 **12, 2008?**

12 A. Yes.

13 **Q. What is the purpose of your testimony today?**

14 A. I am appearing to present the positions and recommendations of the Consumer
15 Utilities Rate Advocacy Division of the Attorney General's Office in regard to the
16 proposed Stipulation and Settlement Agreement (Agreement) among the parties
17 filing testimony in this proceeding, the Commission General Staff (Staff), Entergy
18 Arkansas, Inc. (EAI), and the Attorney General.

19 **Q. What is the role of the Attorney General's Office in these proceedings?**

20 A. The Consumer Utilities Rate Advocacy Division of the Office of the Attorney
21 General is charged by statute with representing the interests of Arkansas
22 ratepayers before the Arkansas Public Service Commission.

23 **Q. Could you summarize the Attorney General's overall recommendation?**

24 A. The Attorney General recommends that the Agreement that is being filed today be
25 approved by the Commission, as being in the public interest.

26 **Q. What is the background of the Agreement?**

1 A. EAI filed testimony in this proceeding requesting regulatory asset treatment of
2 2008 storm damage costs in excess of the amount included in rates (\$14,449,000).
3 The costs would be recovered in 2009. EAI would true up the costs to reflect
4 actual costs through the end of the 2008; the costs would be audited by Staff; and
5 EAI would offset the costs by any excess earnings in 2008 from non-storm-related
6 costs. EAI would receive a carrying charge on storm-related costs at the after-tax
7 return on rate base. Costs would be functionalized (e.g., transmission,
8 distribution) and allocated to customer classes on a cents per kWh basis using
9 most recent sales levels.

10 The Staff filed testimony urging modifications in EAI's initial request, in
11 particular recommending that (1) EAI receive no carrying charges, (2) there be
12 additional filing requirements in EAI's requests for regulatory asset treatment and
13 in their earnings review filing, and (3) the Staff have additional time to audit and
14 review EAI's requests and filings.

15 I filed Direct Testimony on behalf of the Attorney General, and joined the Staff in
16 recommending that the Commission deny recovery of carrying charges and allow
17 more time for the audit of storm damage expenses and analysis of the earnings
18 review. In addition, I recommended that the Commission reduce the amount
19 recovered by approximately \$4 million to take into account normal variation in
20 the storm damage expenses around the average.

21 In the Agreement, EAI has accepted all of the recommendations made by Staff.

22 **Q. Could you summarize the reasons that the Attorney General contends that**
23 **the Agreement is in the public interest?**

24 A. As stated in my Direct Testimony, we acknowledge that EAI experienced an
25 unusually large number of major storm events in 2008. We therefore believe that
26 due to this unique circumstance, it is reasonable this one time to provide a
27 regulatory asset and allow recovery of storm damage costs amount over 12
28 months. I recommended that EAI be allowed to do so, so long as (1) there be
29 sufficient time for an audit of all EAI's storm costs, both those already included in

1 rates and those incurred that were in excess of the storm costs included in rates;
2 (2) there be an earnings review process, in order to assure that any earnings by
3 EAI in excess of its authorized rate of return be used to reduce the amount
4 collected from ratepayers; (3) EAI is not allowed to recover carrying charges on
5 any unrecovered balance; and (4) EAI is allowed to recover only those costs
6 totaling more than (A) the highest amount in the five-year period used to
7 determine the historical average, which is the basis for the normalized level of
8 expenses in rates, or (B) the standard deviation from the historical average,
9 whichever is less. While the Attorney General would prefer that its case be
10 accepted in all these particulars, the Agreement gives ratepayers three of the four
11 conditions I recommended. Particularly in view of litigation risk, and the
12 importance of restoring electric service as soon as possible to the populace after
13 storm events as a matter of public policy, the Agreement therefore addresses the
14 concerns of the Attorney General in this docket in a reasonable way. The
15 Agreement is a reasonable compromise and in the public interest, and on behalf of
16 the Attorney General I recommend that the Commission approve the Agreement.

17 **Q. Does this complete your testimony, Mr. Marcus?**

18 **A.** Yes, it does. Thank you.

CERTIFICATE OF SERVICE

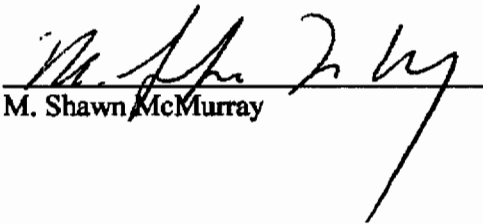
I, M. Shawn McMurray, do hereby certify that on this 3RD day of December, 2008, a copy of the above and foregoing Testimony was emailed to the following persons at the indicated email address:

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