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T.R.A. DOCKET ROOM

Steven K. Strickland  
Vice President  
Regulatory Affairs

August 21, 2009

Ms. Sharla Dillon, Docket Room Manager  
Tennessee Regulatory Authority  
460 James Robertson Parkway  
Nashville, TN 37243-0505

Re: Tennessee Regulatory Authority Docket No. 09-00098  
Entergy Arkansas, Inc. Request for Authorization to Enter  
into Certain Financing Transactions During the Years 2010  
Through 2012

Dear Ms. Dillon:

In followup to EAI's letter dated July 10, 2009, addressed to Chairman Sara Kyle, attached for filing with the Tennessee Regulatory Authority (TRA) are the original and 4 hard copies along with a compact disc containing the direct testimony of Arkansas Public Service Commission (APSC) General Staff witness Jo Ann Sterling filed August 20, 2009 in the APSC Docket No. 09-068-U recommending approval of EAI's Application filed July 10 in that Docket.

Upon issuance of the APSC order, it will also be immediately forwarded to complete EAI's request pending consideration by the TRA.

If you have any questions or need additional information, please do not hesitate to call me at (501) 377-4457 or Mr. David Hunt at (501) 377-4338.

Sincerely,

SKS/tlv  
Attachments

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AUG 24 2009

TN REGULATORY AUTHORITY  
UTILITIES DIVISION

AUG 20 1 35 PM '09

BEFORE THE  
ARKANSAS PUBLIC SERVICE COMMISSION

FILED

IN THE MATTER OF THE APPLICATION )  
OF ENTERGY ARKANSAS, INC. FOR )  
AUTHORIZATION TO ENTER INTO )  
CERTAIN FINANCING TRANSACTIONS )  
BETWEEN JANUARY 1, 2010 AND )  
DECEMBER 31, 2012 )

DOCKET NO. 09-068-U

DIRECT TESTIMONY

OF

JO ANN STERLING  
SENIOR FINANCIAL ANALYST  
FINANCIAL ANALYSIS SECTION

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

AUGUST 20, 2009

**INTRODUCTION**

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- Q. Please state your name and business address.**
- A. My name is Jo Ann Sterling. My business address is Arkansas Public Service Commission (Commission or APSC), 1000 Center Street, Little Rock, Arkansas, 72201.
- Q. Please describe your present position with the Arkansas Public Service Commission General Staff (Staff).**
- A. I am employed as Senior Financial Analyst in the Financial Analysis Section. In that capacity, I perform economic and financial analyses, including determining the appropriate relative relationship between debt and equity capital and calculating the cost of debt, preferred stock and common equity as components for determining the overall required rate of return for jurisdictional utilities. Additionally, I evaluate proposed debt and equity issuances, mergers, and acquisitions pertaining to Arkansas, and monitor current economic and market trends and their effect on utility cost of capital.
- Q. Please describe your education, work experience, and qualifications.**
- A. I graduated from Northwestern University in Evanston, Illinois, with a Bachelor of Arts Degree in Economics. I have more than 22 years' experience assessing the credit risks of a broad range of firms, both domestic and international. I have held the positions of Assistant Credit Manager, Credit Manager, and Export Administrator with a major fiberglass manufacturer. In those capacities, I was responsible for domestic and international credit investigations and assigning

1 lines of credit which involved financial statement and credit report analysis. I was  
2 also responsible for billing and collections including letter of credit and export  
3 document preparation and international collections and was instrumental in  
4 implementing the billing, credit, and accounts receivable functions of the firm's  
5 new integrated computer system.

6 Since joining Staff, I have attended several regulatory training seminars,  
7 including the National Association of Regulatory Utility Commissioners' Annual  
8 Regulatory Studies Program at Michigan State University and the Utility  
9 Symposium held by the Financial Research Institute at the University of Missouri  
10 – Columbia. I have also attended the annual Financial Forum sponsored by the  
11 Society of Utility and Regulatory Financial Analysts (SURFA), of which I am a  
12 member. Additionally, I have been awarded the professional designation of  
13 Certified Rate of Return Analyst (CRRRA) by SURFA, a designation awarded on  
14 the basis of experience and successful completion of a written examination.

15 **Q. Have you previously testified before this Commission?**

16 **A.** Yes, I have testified before this Commission on natural gas, electric utility, water,  
17 and telecommunications cost of capital issues, including the required rate of  
18 return, company-proposed securities issuances and the annual customer deposit  
19 interest rate for Arkansas jurisdictional utilities.

20 **PURPOSE**

21 **Q. What is the purpose of your testimony in this proceeding?**

1 A. The purpose of my testimony is to address the Application of Entergy Arkansas,  
2 Inc. (EAI or Company) and the Direct Testimony of Steven C. McNeal filed on  
3 July 10, 2009.

4 **SUMMARY OF REQUEST**

5 **Q. Please summarize EAI's requested financing authorization.**

6 A. The Application sets forth the Company's request for authorization to issue and  
7 sell in one or more series: (1) first mortgage bonds as supplemental indenture(s)  
8 under EAI's 1944 Mortgage and Deed of Trust in an aggregate amount not to  
9 exceed the sum of \$800,000,000, which includes \$400 million for refinancing  
10 purposes and \$400 million to provide flexibility under special circumstances; (2)  
11 \$100 par value, \$25 par value, or Class A preferred stock (collectively, preferred  
12 stock), which in an aggregate amount would not exceed \$120,000,000; (3) an  
13 aggregate amount of common stock, not to exceed \$200,000,000; (4) tax-exempt  
14 bonds in an aggregate principal amount not to exceed \$350,000,000; and (5)  
15 collateral bonds in an aggregate amount not to exceed \$400,000,000, separate  
16 and apart from the request for issuance and sale of first mortgage bonds. The  
17 Company's requested period of authorization is January 1, 2010 through  
18 December 31, 2012. The Company is requesting an order be issued no later  
19 than September 15, 2009.

20 **ANALYSIS**

21 **Q. What is the primary basis for EAI's request for authorization to issue**  
22 **various types and amounts of securities?**

1 A. EAI's last authorization to issue securities was granted by Order No. 2 in Docket  
2 No. 06-096-U and expires December 31, 2009. The Company's Application is  
3 intended to address financing needs beginning January 1, 2010 and ending  
4 December 31, 2012. Mr. McNeal states, "With the fluctuations in capital markets,  
5 EAI may have opportunities to reduce its financing costs and increase its  
6 financial flexibility."<sup>1</sup> He goes on to say, "The Company is requesting  
7 authorization for such securities sales primarily to achieve the flexibility that will  
8 permit a timely response to changing market conditions when it becomes  
9 beneficial for the Company to refinance, refund, or otherwise acquire outstanding  
10 higher cost securities."<sup>2</sup> By having this variety of issuance authorizations, the  
11 Company's intent is to have the ability to select the timing, terms, conditions, and  
12 amounts of offerings of several types of securities.

13 The required financial statements reflect the acquisition, redemption, and  
14 refunding of outstanding first mortgage bonds and tax-exempt bonds. The  
15 Application states that \$400 million in first mortgage bonds mature or could be  
16 economically refunded over the next three years. Mr. McNeal represents that  
17 EAI does not have any current plans to issue any additional new debt with two  
18 possible exceptions: (1) storm cost securitization bonds which would be  
19 addressed in a separate filing and (2) first mortgage bonds and/or tax-exempt  
20 and associated collateral bonds to finance expenditures related to the installation  
21 of the Environmental Controls Project at EAI's White Bluff Steam Electric

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<sup>1</sup> McNeal Direct Testimony, page 5, lines 11-13

<sup>2</sup> McNeal Direct Testimony, page 8, lines 11-15

1 Station.<sup>3</sup>

2 Q. Is it reasonable in this case to provide a three-year authorization for  
3 issuing up to specified maximum amounts of securities?

4 A. In terms of refinancing, the primary objective is to afford full flexibility for the  
5 Company to timely move in the financial markets to reduce its cost of capital as  
6 opportunities present themselves. EAI also states that continuation of a three-  
7 year term<sup>4</sup> facilitates long-range planning and helps achieve administrative  
8 efficiency. Approval of the Application should facilitate these objectives.  
9 Furthermore, a three-year authorization period is generally consistent with the  
10 shelf-registration effective period for securities registered with the Securities and  
11 Exchange Commission. As to the issuance of new amounts of securities, the  
12 Application and Mr. McNeal's testimony identify the market benefits of financing  
13 flexibility and clearly delineate that only EAI purposes will be served by such  
14 issuances.

15 Commission authorization of security issuances does not guarantee rate  
16 recovery. A review of the need for capital issuance(s) and any resultant rate  
17 recovery implications can be made in the context of subsequent proceedings. To  
18 that end, I recommend the Commission expressly reserve for future  
19 consideration the ratemaking treatment of any security issuances. Further, no  
20 finding of this Commission regarding the securities requested in the instant  
21 docket should be deemed a finding that the installation of environmental controls

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<sup>3</sup> McNeal Direct Testimony, page 8, lines 16-23

<sup>4</sup> Order No. 2 in Docket No. 06-096-U provided a three-year authorization period.

1 as outlined by EAI in its Petition pending in Docket No. 09-024-U, is necessary  
2 and appropriate or in the public interest.

3 **RECOMMENDATIONS**

4 **Q. What specific reporting requirements do you recommend?**

5 A. I recommend the Company be required to file a report providing the purpose of  
6 the issuance and identifying the specific terms of each issuance, including the  
7 actual interest rate and maturity date, all fees and other relevant facts, and the  
8 detailed accounting entries to record the transactions. The reports should be  
9 filed in this docket within thirty (30) days of the issuance or effective date, as  
10 applicable. Each report should also provide a status of remaining authorization,  
11 including the amount authorized for the period, the amount issued to date, and  
12 the remaining authorization after the instant issuance. To the extent the report  
13 contains estimates a follow up report should be filed reflecting actual amounts.

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

15 A. Based on the specific representations made by the Company in the Application  
16 and in Mr. McNeal's testimony and subject to the reporting requirements outlined  
17 above, I recommend the Application be approved. It should be noted that  
18 nothing in my testimony constitutes a recommendation of value for ratemaking  
19 purposes. The appropriate ratemaking treatment of any of the security issuances  
20 which are the subject of this docket should be expressly reserved for future  
21 consideration. Further, no finding of this Commission regarding the securities  
22 issuances should be deemed a finding that the installation of environmental



ENTERGY ARKANSAS, INC.  
DOCKET NO. 09-068-U  
DIRECT TESTIMONY OF JO ANN STERLING - 7-

1 controls as outlined by EAI in its Petition pending in Docket No. 09-024-U is  
2 necessary and appropriate or in the public interest.

3 **Q. Does this conclude your testimony?**

4 **A. Yes, it does.**

**CERTIFICATE OF SERVICE**

I certify that a copy of the foregoing document has been delivered to all parties of record by hand-delivery, facsimile, or first-class mail, postage prepaid, this the 20th day of August, 2009.

  
\_\_\_\_\_  
Connie Griffin