



File
Entergy Arkansas, Inc.
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Steven K. Strickland
Vice President
Regulatory Affairs

September 27, 2011

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

Re: Tennessee Regulatory Authority Docket No. 11-00160
Entergy Arkansas, Inc. Request for Authorization to Enter into Certain
Financing Transactions Between December 31, 2011, and December 31,
2012

Dear Ms. Dillon:

In response to Mr. Jerry Kettles' letter dated today and transmitted by facsimile, attached for filing with the Tennessee Regulatory Authority are the original and four hard copies along with an electronic copy of the Arkansas Public Service Commission (APSC) General Staff witness Robert Daniel's Direct Testimony filed on September 23, 2011, in APSC Docket No. 11-090-U, recommending that the APSC approve Entergy Arkansas' (EAI) request for authority to enter into certain financing transactions to address EAI's additional financing needs from December 31, 2011, through December 31, 2012. EAI is presently awaiting issuance of an order indicating their final decision.

As of the end of August, 2011, EAI had 11 Tennessee retail customers.

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,

A handwritten signature in black ink, appearing to read "SKS/tlv".

SKS/tlv
Attachments

cc: Mr. Jerry Kettles w/Attachment
Mr. Paul Benham

Handwritten notes and stamps:
"11-00160" (vertical)
"SEP 28 2011" (vertical)
"501-377-4457" (vertical)
"11-00160" (vertical)
"SEP 28 2011" (vertical)
"501-377-4457" (vertical)
"11-00160" (vertical)
"SEP 28 2011" (vertical)
"501-377-4457" (vertical)

BEFORE THE
ARKANSAS PUBLIC SERVICE COMMISSION

IN THE MATTER OF THE APPLICATION)	
OF ENTERGY ARKANSAS, INC. FOR)	
AUTHORIZATION TO ENTER INTO)	DOCKET NO. 11-090-U
CERTAIN FINANCING TRANSACTIONS)	
BETWEEN DECEMBER 31, 2011, AND)	
DECEMBER 31, 2012)	

DIRECT TESTIMONY

OF

ROBERT DANIEL
FINANCIAL ANALYST
FINANCIAL ANALYSIS SECTION

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

SEPTEMBER 23, 2011

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DIRECT TESTIMONY OF ROBERT DANIEL - 1-

INTRODUCTION

Q. Please state your name and business address.

A. My name is Robert Daniel. My business address is Arkansas Public Service Commission (Commission or APSC), 1000 Center Street, Little Rock, Arkansas, 72201.

Q. Please describe your current position with the Arkansas Public Service Commission General Staff (Staff).

A. I am employed as a 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 and qualifications.

A. My education includes a Master of Business Administration degree with a concentration in Finance from the University of Arkansas at Little Rock. I also hold a Bachelor of Science degree in Business Administration with a major in Finance from the University of Central Arkansas.

Since joining Staff, I have attended several regulatory training seminars, including the Annual Regulatory Studies Program at Michigan State University

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1 sponsored by the National Association of Regulatory Utility Commissioners and
2 the Utility Symposium held by the Financial Research Institute at the University of
3 Missouri – Columbia. I am a member of the Society of Utility and Regulatory
4 Financial Analysts and have attended the Society's Annual Financial Forum in
5 Washington, D.C.

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

7 A. Yes, I have testified before this Commission on cost of capital issues, including
8 the required rate of return, company-proposed securities issuances, and the
9 annual customer deposit interest rate for Arkansas jurisdictional utilities.

10 **PURPOSE**

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

12 A. The purpose of my testimony is to address the Application of Entergy Arkansas,
13 Inc. (EAI or Company) and the Direct Testimony of Steven C. McNeal filed on
14 September 9, 2011.

15 **SUMMARY OF REQUEST**

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

17 A. The Application sets forth the Company's request for authorization to issue and
18 sell in one or more series, from time to time not earlier than December 31, 2011,
19 and not later than December 31, 2012, long-term debt in an aggregate principal
20 amount not to exceed \$600 million, which amount is in addition to any amounts
21 of such bonds already authorized to be issued and sold pursuant to Order No. 1

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1 in Docket No. 09-068-U. The Company is requesting an order be issued no later
2 than October 1, 2011.

3 **Q. What types of financing authorization does the Company include in long-**
4 **term debt?**

5 A. In its request, EAI identified the additional \$600 million of long-term debt will be in
6 the form of first mortgage bonds, as well as debentures, loan agreements, credit
7 facilities and other like instruments, both secured and unsecured. The
8 Application provides each series of first mortgage bonds is to be issued as a new
9 series under the Company's Mortgage and Deed of Trust, dated as of October 1,
10 1944. Debentures will be issued with like terms and conditions as those
11 described for first mortgage bonds. Loan agreements, credit facilities and other
12 like instruments, where the borrowings issued may be outstanding for periods in
13 excess of one year, will be entered into with various commercial banks, on both
14 secured and unsecured bases.

15 **Q. How will the proceeds that EAI will receive from the issuance of long-term**
16 **debt be used?**

17 A. The Application provides that the funds will be used to repay maturing debt, to
18 provide funds for the redemption or retirement of the Company's outstanding first
19 mortgage bonds prior to the maturity thereof, to provide funds for capital
20 investments, to manage the Company's liquidity and working capital
21 requirements, to finance unanticipated events such as emergency restoration,
22 and for other corporate purposes.

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REVIEW

Q. Please describe EAI's current authorization and recent issuances relating to the sale of first mortgage bonds pursuant to Order No. 1 in Docket No. 09-068-U.

A. EAI is currently authorized to issue and sell in one or more series, from time to time not earlier than January 1, 2010, and not later than December 31, 2012, first mortgage bonds in an aggregate principal amount not to exceed \$800 million, which includes the Company's outstanding first mortgage bonds that mature or could possibly be economically refunded over the next three years (\$400 million) and an additional amount of \$400 million of first mortgage bonds to provide flexibility under special circumstances.

The Company has issued \$575 million of first mortgage bonds under Order No. 1 in Docket No. 09-068-U. In his Direct Testimony Mr. McNeal states, "[o]n October 8, 2010, EAI issued \$225 million principal amount of First Mortgage Bonds, 5.75% Series due November 1, 2040."¹ Further, he states, "[o]n November 12, 2010, EAI issued \$350 million principal amount of First Mortgage Bonds, 3.75% Series due February 15, 2021."² As a result of the first mortgage bonds issued pursuant to Order No. 1, the Company has authorization remaining under Order No. 1 to issue only an additional aggregate amount of \$225 million in first mortgage bonds through December 31, 2012.

¹ McNeal Direct Testimony, page 9, lines 5-7

² McNeal Direct Testimony, page 9, lines 13-14

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1 **Q. What is the primary basis for the EAI's request to increase the long-term**
2 **debt authorization by \$600 million?**

3 A. EAI states in its Application that it appears likely to approach the \$800 million
4 limit for new first mortgage bonds prior to the December 31, 2012, expiration of
5 Order No. 1 in Docket 09-068-U. The Company has already issued \$575 million
6 of first mortgage bonds under Order No. 1 to date, with \$225 million of remaining
7 authorization. The Application is intended to address financing needs beginning
8 January 1, 2012, and ending December 31, 2012, coinciding with the expiration
9 of the authorization approved in Order No. 1. The Application is not requesting
10 any increases to the existing levels of financing authority relating to preferred
11 stock, common stock, or tax-exempt bonds.

12 **Q. What did the Company cite as contributing factors for its request?**

13 A. Favorable market conditions have led to EAI issuing first mortgage bonds to
14 refinance existing bonds at a faster rate than initially anticipated. The Company
15 also identifies continued potential opportunities for economic refunding. EAI
16 currently has outstanding \$115 million first mortgage bonds, 5% Series due July
17 1, 2018, and \$60 million first mortgage bonds, 6.38% Series due November 1,
18 2034, which are currently callable. Mr. McNeal, in his Direct Testimony, states
19 that "[d]ue to continuing favorable market conditions, the Company believes that
20 some or all of these Bonds may be refinanced on favorable terms at a lower net
21 financing cost."³ The Application states that other Entergy Operating Companies

³ McNeal Direct Testimony, page 12, lines 2-5

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1 have recently issued first mortgage bonds with rates and terms ranging from 3.25
2 percent for 5 years to 6 percent for 40 years. The most recent issuance resulted
3 in a 4.1 percent rate for 10 years.

4 EAI identifies in its Application that current economic forecasts reflect not
5 only continued opportunities for economic refunding but also recent events
6 affecting the economic needs of the Company. Mr. McNeal's Direct Testimony
7 states, "In April 2011, the Company signed an asset purchase agreement to
8 acquire the Hot Spring Plant, a 620 MW natural gas-fired combined cycle turbine
9 plant located in Hot Spring County, Arkansas, from a subsidiary of KGen Power
10 Corporation for approximately \$253 million with an anticipated additional
11 expenditure of approximately \$24 million for plant upgrades."⁴ He goes on to
12 say, "Also in April 2011, several thunderstorms with either tornadoes or straight-
13 line winds caused damage to the Company's transmission and distribution lines,
14 equipment, poles, and other facilities requiring an estimated capital expenditure
15 of \$50 million."⁵ He notes further that EAI is in the process of constructing
16 several transmission projects with estimated costs of over \$100 million.

17 **Q. Does Mr. McNeal discuss the Company's inclusion of a multi-year credit**
18 **facility in its request?**

19 **A.** Yes. Mr. McNeal represents that a long-term credit facility will allow the
20 Company to lock-in favorable terms over the life of the credit facility, instead of
21 renegotiating annually. If market conditions improve, the Company can

⁴ McNeal Direct Testimony, page 12, lines 10-15

⁵ McNeal Direct Testimony, page 12, line 18 – page 13, line 2

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1 renegotiate terms to take advantage of such conditions. However, if market
2 conditions worsen, the Company can elect to keep the long-term credit facility in
3 place until the full multi-year term has been reached.

4 **Q. Is EAI's request for an additional \$600 million authorization to issue long-**
5 **term debt reasonable given the current economic climate?**

6 A. Given current market conditions, having the ability to lock-in low interest
7 financing for an extended period of time is advantageous. As Mr. McNeal's
8 testimony provides, "[d]ue to the environment of low interest rates and demand
9 for First Mortgage Bonds in the capital markets, EAI has been able to
10 successfully capitalize on these market conditions by issuing First Mortgage
11 Bonds with greater flexibility, better terms, and lower rates than previously issued
12 securities."⁶

13 **Q. Has EAI addressed that the fair value of its properties and the reasonable**
14 **cost of the issuance do not exceed the fair market value of its assets?**

15 A. Yes. The Company states in its Application that after the issuance of the long-
16 term debt, the aggregate amount of all its outstanding stock, bonds, notes and
17 other evidences of indebtedness will not exceed the fair value of the Company's
18 properties and the reasonable cost of the issuance and sale of the long-term
19 debt.

⁶ McNeal Direct Testimony, page 11, lines 18-22

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RECOMMENDATIONS

Q. What specific reporting requirements do you recommend?

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

Q. What is your recommendation?

A. Based on the specific representations made by the Company in the Application and in Mr. McNeal's testimony and subject to the reporting requirements outlined above, I recommend the Application be approved. It should be noted that nothing in my testimony constitutes a recommendation of value for ratemaking purposes. The appropriate ratemaking treatment of any of the security issuances which are the subject of this docket should be expressly reserved for future consideration.

Commission authorization of security issuances does not guarantee rate recovery. A review of the need for capital issuance(s) and any resultant rate recovery implications can be made in the context of subsequent proceedings. To

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1 that end, I recommend the Commission expressly reserve for future
2 consideration the ratemaking treatment of any security issuances.

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

4 **A. Yes.**

CERTIFICATE OF SERVICE

I certify that a copy of the foregoing has been served on all parties of record by forwarding the same by postage prepaid first class mail, hand delivery, or electronic mail, this 23rd day of September, 2011.

/s/ Ronna Abshure
Ronna Abshure