



Entergy Arkansas, Inc.
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VIA FACSIMILE AND FIRST-CLASS MAIL

Steven K. Strickland
Vice President
Regulatory Affairs

September 29, 2011

Filed electronically in
TRA Docket Room
09/29/11

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' September 27, 2011 letter, 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) Order No. 1 issued on September 29, 2011, in APSC Docket No. 11-090-U, approving Entergy Arkansas, Inc.'s (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.

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", followed by a horizontal line.

SKS/tlv
Attachments

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

ARKANSAS PUBLIC SERVICE COMMISSION

2011 SEP 29 P 4: 21

IN THE MATTER OF THE APPLICATION)
 OF ENTERGY ARKANSAS, INC. FOR)
 AUTHORIZATION TO ENTER INTO)
 CERTAIN FINANCING TRANSACTIONS)
 BETWEEN DECEMBER 31, 2011, AND)
 DECEMBER 31, 2012)

FILED

DOCKET NO. 11-090-U
 ORDER NO. 1

ORDER

On September 9, 2011, Entergy Arkansas, Inc. ("EAI" or the "Company") filed in this docket its Application seeking approval of the Arkansas Public Service Commission ("Commission") to enter into certain financing transactions between December 31, 2011, and December 31, 2012. In support of its Application EAI also filed on September 9, 2011, the Direct Testimony of Steven C. McNeal, EAI Vice President and Treasurer.

EAI's Application

EAI's Application was filed pursuant to Ark. Code Ann. § 23-3-103, *et. seq.* and Rules 4 and 5 of the Commission's *Rules of Practice and Procedure* ("RPP"). EAI is subject to the jurisdiction of this Commission, the Federal Energy Regulatory Commission ("FERC"), and the Tennessee Regulatory Authority ("TRA"). The TRA also regulates the issuances of securities by EAI as does this Commission. Therefore, EAI also must secure the approval of the TRA in connection with the proposed financing transactions. Application at ¶ 1.

Order No. 1, entered by the Commission in Docket No. 09-068-U on September 14, 2009 ("Order No. 1"), authorized EAI to issue and sell between January 1, 2010, and December 31, 2012, first mortgage bonds ("First Mortgage Bonds" or "Bonds") in an aggregate principal amount not to exceed \$800 million. One of the purposes of the issuances was to permit the Company to reduce its financing costs by refinancing higher

cost securities. "Because of unexpectedly favorable market conditions, the Company has been issuing First Mortgage Bonds to refinance existing Bonds at a rate faster than initially anticipated. As a result, the Company has achieved \$7.2 million of annual interest savings, before tax." *Id.* at ¶ 3.

EAI now seeks additional financing for the purpose of refinancing higher cost Bonds at lower rates and for additional capital expenditure purposes. Specifically, EAI states that in April 2011, several thunderstorms with either tornados or straight-line winds caused damage to the Company's transmission and distribution lines, equipment, poles, and other facilities. Also in April 2011, EAI signed an asset purchase agreement to acquire the Hot Spring Energy Facility, a 620 MW natural gas-fired combined-cycle turbine plant located in Hot Spring County, Arkansas, from a subsidiary of KGen Power Corporation for approximately \$253 million, with an anticipated additional expenditure of approximately \$24 million for plant upgrades. EAI also has under construction transmission projects totaling approximately \$100 million. *Id.* at ¶ 4.

EAI states that it will likely approach the \$800 million limit for new First Mortgage Bonds prior to the December 31, 2012, expiration of the financing authority granted by Order No. 1. To date, EAI has issued \$575 million of First Mortgage Bonds under Order No. 1. As a result of the First Mortgage Bonds previously 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. *Id.* at ¶ 5.

EAI has outstanding \$115 million First Mortgage Bonds, 5% Series due July 1, 2018, and \$60 million First Mortgage Bonds, 6.38% Series due November 1, 2034, which are currently callable. Due to continuing, favorable market conditions, EAI

believes that some or all of these Bonds may be refinanced on favorable terms at a lower net financing cost. Other Entergy Operating Companies have recently issued first mortgage bonds with rates and terms ranging from 3.25 percent for 5 years to 6 percent for 40 years. The most recent issuance resulted in a 4.1 percent rate for 10 years. *Id.* at ¶ 6. In addition to the remaining authorization for \$225 million of First Mortgage Bonds, EAI states that it will need authority to issue an additional \$600 million of long-term debt in the form of First Mortgage Bonds, as well as debentures ("Debentures"), loan agreements, credit facilities and other like instruments, both secured and unsecured ("Long-Term Debt"). *Id.* at ¶ 7.

EAI's proposed use of the requested aggregate financing authority is summarized in the following table:

Available Balance of Financing Authority Authorized by Order No. 1 of Docket 09-068-U	\$225 million
Requested Additional Financing Authority Through December 31, 2012	\$600 million
TOTAL Financing Authority	\$825 million
Proposed Use of Total Financing Authority:	
Less Proposed Acquisition of KGen Generator Including Expected Upgrades	(\$277) million
Less Transmission Projects Under Construction	(\$100) million +
Less Refinancing of Existing Debt	(\$175) million
Less Cost to Repair Storm-damaged Transmission and Distribution Facilities	(\$50) million
TOTAL Proposed Use	(\$602) million
Reserve Financing Authority to Best Manage EAI's Liquidity and Working Capital Requirements and Continue to Reduce Interest Expenses	\$223 million +/-

EAI Witness McNeal Direct Testimony at 11-13.

Therefore, EAI seeks an order from this Commission authorizing it from time to time not later than December 31, 2012, to issue and sell or enter into arrangements for, as appropriate, Long-Term Debt in such principal amounts as EAI may elect, which amounts, in the aggregate, shall not exceed the sum of \$600 million, which amount is in

addition to any amounts of First Mortgage Bonds, Preferred Stock, Common Stock and Tax-Exempt Bonds previously authorized to be issued and sold pursuant to Order No. 1. EAI's Application does not request any increases to the existing levels of financing authority relating to Preferred Stock, Common Stock, or Tax-Exempt Bonds. The Long-Term Debt, if approved, will be due not less than one year nor more than 60 years after the respective dates of issuance. *Id.* at ¶ 8.

EAI states that after the issuance of the Long-Term Debt, the aggregate amount of all its outstanding stock, bonds, notes and other evidences of indebtedness will not exceed the fair value of the Company's properties and the reasonable cost of the issuance and sale of the Long-Term Debt. *Id.* at ¶ 18, EAI Application Exhibits C and D.¹

Finally, in order to take advantage of favorable capital market conditions, EAI states that it is essential that it be able to proceed with the requested financing authority "when presented with opportunities to enhance its financial flexibility and/or reduce its capital costs." *Id.* at ¶ 20. EAI's proposed financing transactions must also be approved by the TRA which typically will not act on EAI's TRA Application until the Arkansas Commission has approved this Application. Further, a final order from the TRA approving EAI's Application would not become effective until sixty (60) days after issuance. *Id.*

¹ Application Exhibit C reflects the estimated aggregate expenses in connection with the issuance and sale of the Long-Term Debt. Application Exhibit D presents EAI's Balance Sheet per books as of June 30, 2011, and Pro Forma after giving effect to the proposed financing transactions; an Earnings Statement per books for the 12 months ended June 30, 2011, and Pro Forma after giving effect to the proposed financing transactions; and the details of EAI's Long-Term Debt as of June 30, 2011, and Pro Forma after giving effect to the proposed financing transactions.

EAI Supporting Direct Testimony

EAI witness McNeal explains that loan agreements, credit facilities, and other similar instruments present another means for EAI to manage its day-to-day working capital needs as well as its long-term debt portfolio. With a structure similar to short-term revolving credit facilities, Mr. McNeal states that these long-term credit instruments allow EAI to incur revolving debt (where it can borrow, pay down, and reborrow under a single facility with a maximum amount of borrowing to be outstanding at any time) with borrowings outstanding up to terms of approximately 5 years. McNeal Direct Testimony at 10. Mr. McNeal further explains that a long-term credit facility will allow EAI to lock-in favorable terms over the life of the credit facility, instead of renegotiating annually. If market conditions improve, EAI can renegotiate terms to take advantage of such conditions. However, if market conditions worsen, EAI can elect to keep the long-term credit facility in place until the full multi-year term has been reached. *Id.*

Mr. McNeal summarizes EAI's financing proposal as follows:

EAI's overall financing goal is to meet its liquidity and working capital requirements and to achieve a low cost of capital, which can be best accomplished by taking advantage of market conditions as they arise. Enhancing financial flexibility and granting additional authority would provide the Company with the opportunity to minimize financing costs to the benefit of EAI and its customers. For these reasons, the Company believes it is in the public interest for this request to be approved by the Commission. It is appropriate for the APSC to take expedited action and issue an order by October 1, 2011, to accomplish these financial goals and to allow sufficient time to obtain TRA approval.

Id. at 14.

General Staff Testimony

In response to EAI's Application and supporting Direct Testimony, the Commission's General Staff ("Staff") filed on September 23, 2011, the Direct Testimony of Staff witness Robert Daniel, Staff Financial Analyst. Mr. Daniel confirms EAI's representation that the fair value of its properties and the reasonable cost of the Long-Term Debt issuance do not exceed the fair market value of EAI's assets.² Daniel Direct Testimony at 7.

Given current market conditions, Mr. Daniel testifies that EAI's request for authorization to issue an additional \$600 million in long-term debt is both reasonable and advantageous because it will allow EAI to lock-in low interest financing for an extended period of time. *Id.*

Therefore, Mr. Daniel recommends that EAI's Application be approved and that EAI be required to file timely reports providing the purpose of each 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. Mr. Daniel recommends that these reports be filed in this docket within thirty (30) days of each 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. *Id.* at 8-9.

Finally, Mr. Daniel provides the following additional caveats and recommendations: (1) Nothing in his testimony constitutes a recommendation of value

² See Ark. Code Ann. § 23-3-105.

for ratemaking purposes; (2) the appropriate ratemaking treatment of any of the security issuances which are the subject of this docket should be expressly reserved for future consideration by the Commission; (3) Commission authorization of security issuances does not guarantee rate recovery; (4) a review of the need for capital issuance(s) and any resultant rate recovery implications can be made in the context of subsequent proceedings; and, to that end, (4) the Commission should expressly reserve for future consideration the appropriate ratemaking treatment of any security issuances.

Id.

Statutory Authority, Findings, Directives and Orders of the Commission

Statutory Authority:

Arkansas Code Annotated § 23-3-104 *et. seq.* provides as follows:

23-3-104. Stocks, bonds, notes, etc. — Issuance.

(a) (1) When authorized by order of the commission, and not otherwise, a public utility may issue stock, bonds, notes, or other evidence of indebtedness payable at periods of more than thirty-six (36) months after the date of issuance when necessary for:

(A) The acquisition of property, the construction, extension, or improvement of its facilities, or the improvement of its service;

(B) The discharge or lawful refunding of its obligations, or reimbursement of moneys actually expended from the income from any source; or

(C) Any of such purposes.

(2) The order of the commission shall fix the maximum amount of any such issue and the purposes to which it or any proceeds up to the stated maximum amount are to be applied.

(3) No public utility shall apply any such issue or its proceeds to any purpose not specified in the order without the consent of the commission.

(b) The public utility may issue notes for proper corporate purposes and not in violation of any provision of law, payable at periods of not more

than thirty-six (36) months, without the consent of the commission. However, no such note, in whole or in part, shall be refunded by any issue of stock or bonds or by any evidence of indebtedness with a maturity date later than thirty-six (36) months from the date of issue without the consent of the commission.

(c) All securities issued without the approval of the commission shall be void.

23-3-105. Stocks, bonds, notes, etc. — Amount of issue.

The commission shall have no power to authorize the issuance of stocks, notes, bonds, or other evidence of indebtedness of any public utility in an aggregate amount at any time exceeding the fair value of the properties of the issuer and the reasonable cost of the issuance and sale of the issues.

23-3-106. Stocks, bonds, notes, etc. — Disposition of proceeds.

The commission shall have the power to require every public utility, other than municipalities, to account for the disposition of the proceeds of all sales of stocks, bonds, notes, or other evidence of indebtedness, in such form and detail as it may deem advisable. Also, the commission shall have the power to establish such rules and regulations as it may deem necessary to insure the disposition of the proceeds for the purpose specified in its order.

23-3-107. Stocks, bonds, notes, etc. — Liability of state.

No provision of this act and no deed or act done or performed under or in connection therewith shall be construed to obligate the State of Arkansas to pay or guarantee, in any manner whatsoever, any stock, bond, note, or other evidence of indebtedness authorized, issued, or executed under the provisions of this act.

Findings:

Based upon our review of EAI's Application and Exhibits, the Direct Testimony of EAI witness Steven McNeal and the Direct Testimony of Staff witness Robert Daniel, the Commission finds that EAI has satisfied the requirements of Ark. Code Ann. § 23-3-104 *et. seq.* and has demonstrated by substantial evidence that the proposed financing plan is in the public interest and should be approved. EAI's ratepayers will benefit from the

refinancing by EAI of higher cost debt with lower cost debt which, in turn, will reduce EAI's operating costs. EAI Application at ¶ 6, EAI Witness McNeal Direct Testimony at 11-12. The Commission also notes that EAI's Pro Forma Balance Sheet indicates that EAI's Debt/Equity ratio will be near the Debt/Equity ratio of 54%/46% adopted in EAI's last rate case proceeding (Docket No. 09-084-U). EAI Application Exhibit D at 4-5.

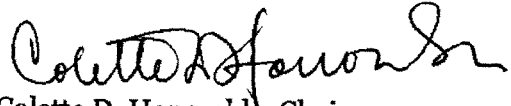
Directives and Orders of the Commission:

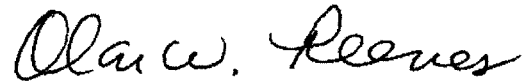
Accordingly, the Commission directs and orders as follows:


1. EAI's Application is approved subject to the following conditions:
2. EAI shall file timely reports providing the purpose of each debt 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. Such reports shall be filed in this docket within thirty (30) days of each issuance or effective date, as applicable. Each report also shall provide a status of remaining debt 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 timely follow up report shall be filed reflecting actual amounts; and
3. This Order does not constitute guaranteed rate recovery of any security issuance pursuant to this Order, and to that end, the Commission expressly reserves for future consideration the appropriate ratemaking treatment of all such security issuances.

BY ORDER OF THE COMMISSION,

This 29th day of September, 2011.

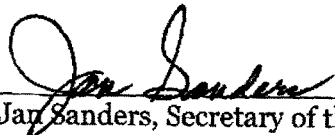

Colette D. Honorable, Chairman


Olan W. Reeves, Commissioner


Elana C. Wills, Commissioner

I hereby certify that this order, issued by the
Arkansas Public Service Commission,
has been served on all parties of record on
this date by the following method:

☐ U.S. mail with postage prepaid using the
mailing address of each party as
indicated in the official docket file, or
☒ Electronic mail using the email address
of each party as indicated in the official
docket file.


Jan Sanders, Secretary of the Commission