

BEFORE THE ARKANSAS PUBLIC SERVICE COMMISSION

**IN THE MATTER OF THE APPLICATION)
OF ENTERGY ARKANSAS, INC. FOR)
APPROVAL OF CHANGES IN RATES FOR)
RETAIL ELECTRIC SERVICE)**

DOCKET NO. 13-028-U

STAFF COMPLIANCE FILING PURSUANT TO ORDER NO. 21

Comes now the General Staff of the Arkansas Public Service Commission (Staff) and for its Compliance Filing Pursuant to Order No. 21 states:

1. Order No. 21, entered December 30, 2013, directed Staff to prepare and file a revenue requirement summary reflecting the changes to Staff's Revised Surrebuttal Revenue Requirement, adjusted in compliance with the findings of the Order; to show a reconciliation of Staff's Revised Surrebuttal Revenue Requirement to the Revenue Requirement resulting from the findings of the Order; and to file a cost of service to rate class resulting from the order and a mitigated cost of service showing the mitigation method approved therein.¹

2. Staff has revised the Revenue Requirement pursuant to Order No. 21. The resulting Revenue Requirement is \$1,094,133,999 with a Revenue Deficiency of \$81,051,692. This is a reduction of \$29,434,032 and \$28,916,906, respectively, from Staff's Revised Surrebuttal amounts of \$1,123,568,031 and \$109,968,597. Staff Compliance Exhibit 1 shows the revised cost of service, reflecting mitigation.

3. The following changes were made to Staff's Revised Surrebuttal Revenue Requirement:

¹ Order No. 21 at 186-87.

- a. Reduced Other Revenues for change in Customer Activity Fees, a difference of \$517,126.
- b. Disallowance of 50% of short-term incentive compensation \$8,087,877 and related payroll costs of \$2,222,548.
- c. Disallowance of 100% of long-term incentive compensation \$7,279,054, updated to reflect EAI's Hearing Exhibit 2 for Stock Options, and related payroll costs of \$256,223. Order No. 21 specified on page 55 that this disallowance should be \$7,036,188; however, as shown on Staff Compliance Exhibit 2, the stock options reflect the updated amount of \$5,986,958 included in EAI's Hearing Exhibit 2, an increase of \$242,866. Staff requests that the Commission affirm its intent to use the updated amounts from EAI's Hearing Exhibit 2.
- d. Disallowance of Supplemental Executive Retirement Plan of \$4,360,588.
- e. Updated the MSS-4 (wholesale/retail split) adjustment to reflect the ordered revisions, a reduction of \$712,041.
- f. Revised the Rate of Return from 4.38% to 4.29% to reflect Return on Equity of 9.3%. The attached Staff Compliance Exhibit 3 reflects revisions made to the weighted cost of capital table set forth in Commission Order No. 21 on page 89. The revisions made were as follows:

- (1) The Accumulated Deferred Income Tax (ADIT) amount was updated to reflect an adjustment related to the Grand Gulf Rider over/under recovery normalization set forth on page 40 of the Order. The Order modified the ADIT related to the Grand Gulf Rider to reflect a five-year annual year-end average amount for the years 2008 through 2012. This resulted in a reduction in ADIT of \$3.7 million and is reflected in Staff Compliance Exhibit 3; however, it did not result in a change to the overall rate of return.
- (2) Certain of the proportion percentages were changed as a result of the change to the ADIT Amount in item (1) above.
- (3) The rate reflected on the "Post-1970 ADITC – Common Equity" line was revised from 9.6% to 9.3% to reflect the Commission's adoption of Staff's mid-point of 9.3% as the approved return on equity percent.

Staff requests that the Commission affirm its intent to use these revised numbers as shown on Compliance Exhibit 3 in the weighted cost of capital table.

- g. Revised the Revenue Conversion Factor from 1.6434 to 1.6158 to reflect the inclusion of the manufacturer's tax deduction. The calculation is shown as Staff Compliance Exhibit 4.
4. On page 78 of Order No. 21, the Commission approved Staff's depreciation rates as recommended in Staff's Direct Exhibit RG-1. Staff requests that the

Commission affirm that it likewise approves the depreciation parameters for setting those rates as contained in Staff's Direct Exhibit RG-2. Staff further requests that the Commission affirm that it likewise approves the unrecovered cost annual amortization amounts for general plant as set forth in Staff's Direct Exhibit RG-5 and the production plant as set forth in Staff's Surrebuttal Exhibit RG-5.

WHEREFORE, Staff submits its compliance filing and requests that the Commission:

1. affirm its intent to use the updated amounts from EAI's Hearing Exhibit 2 in the long-term incentive compensation disallowance;
2. affirm its intent to use the revised numbers as shown on Compliance Exhibit 3 in the weighted cost of capital table;
3. affirm that it approves the depreciation parameters for setting the depreciation rates as contained in Staff's Direct Exhibit RG-2;
4. affirm that it approves the unrecovered cost annual amortization amounts for general plant as set forth in Staff's Direct Exhibit RG-5 and the production plant as set forth in Staff's Surrebuttal Exhibit RG-5.

Respectfully submitted,

General Staff of the Arkansas
Public Service Commission

By: /s/ Valerie F. Boyce
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CERTIFICATE OF SERVICE

I, Valerie F. Boyce, hereby certify that a copy of the foregoing has been served on all parties of record by electronic mail via the Electronic Filing System this 9th day of January, 2014.

/s/ Valerie F. Boyce
Valerie F. Boyce

Line No	Description	Total Company Pro Forma 1	Total Wholesale 2	Total Retail 3	Residential 4	SGS 5	LGS 6	Lighting 7
<u>RATE BASE</u>								
1	GROSS PLANT IN SERVICE	\$ 8,470,421,107	\$ 440,653,514	\$ 8,029,767,593	\$ 3,606,793,128	\$ 1,975,610,942	\$ 2,269,989,694	\$ 177,373,828
2	ACCUMULATED DEPRECIATION	\$ (3,850,883,397)	\$ (143,690,470)	\$ (3,707,192,928)	\$ (1,619,774,703)	\$ (896,292,542)	\$ (1,080,163,995)	\$ (110,961,688)
3	NET PLANT	\$ 4,619,537,710	\$ 296,963,044	\$ 4,322,574,665	\$ 1,987,018,425	\$ 1,079,318,401	\$ 1,189,825,699	\$ 66,412,140
4	WORKING CAPITAL ASSETS/OTHER RATE BASE	\$ 500,449,035	\$ 26,439,758	\$ 474,009,278	\$ 211,593,270	\$ 116,579,278	\$ 137,860,609	\$ 7,976,121
5	TOTAL RATE BASE	\$ 5,119,986,745	\$ 323,402,802	\$ 4,796,583,943	\$ 2,198,611,695	\$ 1,195,897,679	\$ 1,327,686,308	\$ 74,388,261
<u>NON-FUEL OPERATING REVENUES</u>								
6	PRESENT RATE SCHEDULE REVENUES	\$ 988,190,060	\$ -	\$ 988,190,060	\$ 473,791,977	\$ 242,281,001	\$ 250,053,703	\$ 22,063,379
7	SYSTEM SALES AND OTHER REVENUES	\$ 24,999,665	\$ 107,417	\$ 24,892,248	\$ 16,654,848	\$ 3,997,444	\$ 3,473,982	\$ 765,973
8	TOTAL OPERATING REVENUE	\$ 1,013,189,725	\$ 107,417	\$ 1,013,082,308	\$ 490,446,825	\$ 246,278,445	\$ 253,527,685	\$ 22,829,352
<u>EXPENSES</u>								
9	OPERATION & MAINTENANCE EXPENSE	\$ 540,295,695	\$ 11,187,283	\$ 529,108,412	\$ 241,210,853	\$ 124,231,090	\$ 154,426,082	\$ 9,240,386
10	DEPRECIATION & AMORTIZATION EXPENSE	\$ 220,264,815	\$ 9,019,302	\$ 211,245,513	\$ 96,713,650	\$ 51,694,306	\$ 57,908,325	\$ 4,929,233
11	REGULATORY DEBITS AND CREDITS	\$ 959,989	\$ 129,317	\$ 830,672	\$ 369,875	\$ 204,149	\$ 244,978	\$ 11,670
12	OTHER CREDIT FEES	\$ 362,500	\$ -	\$ 362,500	\$ 166,159	\$ 90,380	\$ 100,339	\$ 5,622
13	TAXES OTHER THAN INCOME TAXES	\$ 51,353,416	\$ 2,122,734	\$ 49,230,683	\$ 22,188,102	\$ 11,990,526	\$ 14,009,273	\$ 1,042,781
14	INCOME TAXES	\$ 56,872,290	\$ (9,819,519)	\$ 66,691,809	\$ 41,954,489	\$ 17,746,528	\$ 4,164,855	\$ 2,825,938
15	TOTAL EXPENSES	\$ 870,108,705	\$ 12,639,116	\$ 857,469,590	\$ 402,603,129	\$ 205,956,978	\$ 230,853,854	\$ 18,055,630
16	OPERATING INCOME	\$ 143,081,019	\$ (12,531,699)	\$ 155,612,718	\$ 87,843,697	\$ 40,321,467	\$ 22,673,832	\$ 4,773,722
17	PRESENT RETURN ON RATE BASE	2.79%	-3.87%	3.24%	4.00%	3.37%	1.71%	6.42%
<u>REVENUE REQUIREMENT DETERMINATION</u>								
18	REQUIRED RATE OF RETURN			4.29%	4.29%	4.29%	4.29%	4.29%
19	REQUIRED OPERATING INCOME (L5*L18)			\$ 205,773,451	\$ 94,320,442	\$ 51,304,010	\$ 56,957,743	\$ 3,191,256
20	OPERATING INCOME DEFICIENCY / (SURPLUS) (L19-L16)			\$ 50,160,733	\$ 6,476,745	\$ 10,982,543	\$ 34,283,911	\$ (1,582,466)
21	REVENUE CONVERSION FACTOR			1.61584	1.61080	1.61650	1.61652	1.61452
22	REVENUE DEFICIENCY / (SURPLUS) (L20*L21)			\$ 81,051,692	\$ 10,432,740	\$ 17,753,291	\$ 55,420,580	\$ (2,554,919)
23	% INCREASE ON BASE REVENUE (L22/L6)			8.20%	2.20%	7.33%	22.16%	-11.58%
24	RATE SCHEDULE REVENUE REQUIREMENT (L6+L22)			\$ 1,069,241,752	\$ 484,224,717	\$ 260,034,292	\$ 305,474,283	\$ 19,508,460
25	OTHER OPERATING REVENUES (L7)			\$ 24,892,248	\$ 16,654,848	\$ 3,997,444	\$ 3,473,982	\$ 765,973
26	FUEL AND OTHER RIDER REVENUES (Includes MISO/CCR Riders)			\$ 577,055,030	\$ 234,452,108	\$ 130,282,217	\$ 203,699,911	\$ 8,620,794
27	TOTAL REVENUE REQUIREMENT (L24+L25+L26)			\$ 1,671,189,029	\$ 735,331,673	\$ 394,313,953	\$ 512,648,176	\$ 28,895,227
<u>TOTAL BILL IMPACT - COST OF SERVICE</u>								
28	PRESENT RATE SCHEDULE REVENUE (L6)			\$ 988,190,060	\$ 473,791,977	\$ 242,281,001	\$ 250,053,703	\$ 22,063,379
29	OTHER OPERATING REVENUES (L7)			\$ 24,892,248	\$ 16,654,848	\$ 3,997,444	\$ 3,473,982	\$ 765,973
30	FUEL AND OTHER RIDER REVENUES			\$ 626,722,945	\$ 255,845,715	\$ 142,307,781	\$ 219,683,874	\$ 8,885,575
31	RIDER PCA REVENUES			\$ 121,629,055	\$ 46,844,143	\$ 26,599,504	\$ 46,652,440	\$ 1,532,968
32	TOTAL PRESENT REVENUE REQUIREMENT (L28+L29+L30+L31)			\$ 1,761,434,308	\$ 793,136,684	\$ 415,185,730	\$ 519,863,999	\$ 33,247,895
33	CHANGE IN TOTAL REVENUE REQUIREMENT (L27-L32)			\$ (90,245,279)	\$ (57,805,011)	\$ (20,871,777)	\$ (7,215,823)	\$ (4,352,668)
34	% INCREASE ON TOTAL REVENUE REQUIREMENT (L33/L32)			-5.12%	-7.29%	-5.03%	-1.39%	-13.09%
<u>TOTAL BILL IMPACT (STAFF PROPOSED)</u>								
35	PROPOSED REVENUE DEFICIENCY / (SURPLUS)			\$ 81,051,692	\$ 29,145,437	\$ 19,871,972	\$ 32,034,283	\$ -
36	% INCREASE ON BASE REVENUE (L35/L6)			8.20%	6.15%	8.20%	12.81%	0.00%
37	PROPOSED RATE SCHEDULE REVENUE REQUIREMENT (L6+L35)			\$ 1,069,241,752	\$ 502,937,414	\$ 262,152,973	\$ 282,087,986	\$ 22,063,379
38	PROPOSED TOTAL REVENUE REQUIREMENT (L37+L25+L26)			\$ 1,671,189,029	\$ 754,044,370	\$ 396,432,634	\$ 489,261,879	\$ 31,450,146
39	CHANGE IN TOTAL PROPOSED REVENUE REQUIREMENT (L38-L32)			\$ (90,245,279)	\$ (39,092,313)	\$ (18,753,096)	\$ (30,602,120)	\$ (1,797,749)
40	% INCREASE ON TOTAL REVENUE REQUIREMENT (L39/L32)			-5.12%	-4.93%	-4.52%	-5.89%	-5.41%

ENTERGY ARKANSAS, INC.
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INCENTIVE COMPENSATION AND SUPPLEMENTAL RETIREMENT

	EAI DIRECT	ESI BILLED TO EAI	NUCLEAR	Total	Disallowed
Exempt Incentive Plan (EIP)	\$ 932,370	\$ 977,098	\$ 1,263,439	\$ 3,172,907	\$ 1,586,454
Executive Annual Incentive Plan (EAIP)	\$ 100,764	\$ 1,504,329	\$ 267,799	\$ 1,872,892	\$ 936,446
Management Incentive Plan (MIP)	\$ 1,046,905	\$ 3,899,295	\$ 4,199,770	\$ 9,145,970	\$ 4,572,985
TeamSharing Incentive Plan (TIP)	\$ 849,185	\$ 120,269	\$ 1,014,530	\$ 1,983,984	\$ 991,992
Subtotal STIP	\$ 2,929,224	\$ 6,500,991	\$ 6,745,538	\$ 16,175,753	\$ 8,087,877
Benefits (19.83%)	\$ 580,865	\$ 1,289,147	\$ 1,337,640	\$ 3,207,652	\$ 1,603,826
PR Taxes (7.65%)	\$ 224,086	\$ 497,326	\$ 516,034	\$ 1,237,445	\$ 618,723
Total STIP	\$ 3,734,175	\$ 8,287,463	\$ 8,599,212	\$ 20,620,850	\$ 10,310,425

Long-Term Incentive Plan-ZZ4045 & ZZ4046	\$ (24,725)	\$ (597,099)	\$ (154,300)	\$ (776,123)	\$ (776,123)
Equity Awards -ZZ4080 & ZZ4081	-	\$ 88,979	-	\$ 88,979	\$ 88,979
Restricted Share Awards-ZZ4090	-	\$ 147,132	\$ 27,028	\$ 174,160	\$ 174,160
Restricted Stock Awards Program-ZZ4091	\$ 208,675	\$ 1,013,047	\$ 583,359	\$ 1,805,080	\$ 1,805,080
Subtotal L-T Plan \$s	\$ 183,950	\$ 652,059	\$ 456,087	\$ 1,292,096	\$ 1,292,096
Benefits (19.83%)	\$ 36,477	\$ 129,303	\$ 90,442	\$ 256,223	\$ 256,223
Subtotal L-T Plan and benefits	\$ 220,427	\$ 781,362	\$ 546,529	\$ 1,548,319	\$ 1,548,319
Stock Options	\$ 333,533	\$ 4,710,067	\$ 943,358	\$ 5,986,958	\$ 5,986,958
Total LTIP	\$ 553,960	\$ 5,491,429	\$ 1,489,887	\$ 7,535,277	\$ 7,535,277

Total SERP	\$ 463,561	\$ 3,627,736	\$ 269,291	\$ 4,360,588	\$ 4,360,588
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Total Disallowance	22,206,290				
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REVISIONS PURSUANT TO COMMISSION ORDER NO. 21

STAFF COMPLIANCE EXHIBIT 3

**Entergy Arkansas, Inc.
Weighted Cost of Capital**

Component	Amount	Proportion	Rate	Weighted Cost
Long-Term Debt	1,617,950,677	29.05%	4.97%	1.44%
DOE Obligation	181,225,686	3.25%	0.08%	0.00%
Short-Term Debt	35,880,548	0.64%	1.72%	0.01%
Preferred Stock	113,073,223	2.03%	5.99%	0.12%
Common Equity	1,594,907,937	28.64%	9.30%	2.66%
Customer Deposits	85,948,491	1.54%	0.50%	0.01%
ADIT	1,739,877,219	31.24%	0.00%	0.00%
Post-1970 ADITC - Long-Term	19,228,202	0.35%	4.97%	0.02%
Post-1970 ADITC - Short-Term	426,415	0.01%	1.72%	0.00%
Post-1970 ADITC - Preferred Stock	1,343,795	0.02%	5.99%	0.00%
Post-1970 ADITC - Common Equity	18,954,355	0.34%	9.30%	0.03%
CAOL	159,942,333	2.87%	0.00%	0.00%
Totals	5,568,758,881	100.00%		4.29%

Value was revised pursuant to Commission Order No. 21.

Entergy Arkansas, Inc.
Revenue Conversion Factor
Test Year Ended December 31, 2012

(1)	(2)	(3)	(4)	(5)	(6)	(7)
LN	Description	Total Retail	RES	SMALL GEN SERVICE	LARGE GEN SERVICE	LIGHTING
1	Arkansas Corporate Tax Rate	6.50%	6.50%	6.50%	6.50%	6.50%
2	Federal Corporate Tax Rate	35.00%	35.00%	35.00%	35.00%	35.00%
3	Manufacturing Deduction Rate (1)	3.02%	3.02%	3.02%	3.02%	3.02%
4	Composite Tax Rate (2)	38.17%	38.17%	38.17%	38.17%	38.17%
5	Uncollectible Accounts Ratio	0.4100%	0.7747%	0.1325%	0.0848%	0.3353%
6	Forfeited Discounts Ratio	0.6200%	1.1780%	0.1817%	0.1329%	0.5074%
7	Revenue Conversion Factor (3)	1.6158	1.6108	1.6165	1.6165	1.6145

Notes:

- (1) Manufacturing Deduction Rate = Net Production Plant / Arkansas Rate Base x 9%
See Calculation Below
- (2) Composite Tax Rate = Arkansas Tax Rate + (1 - Arkansas Tax Rate - Manufacturing Deduction Rate) x (Federal Tax Rate)
Composite Tax Rate = L 1 + (1 - L1-L3)' (L2)
- (3) Revenue Conversion Factor = 1 / ((1 - Composite Tax Rate) x (1 - Uncollectible Accounts Ratio + Forfeited Discounts ratio))
Revenue Conversion Factor = 1 / ((1 - L4) x (1 - L5 + L6))
Total Retail Revenue Conversion Factor is weighted per COS

Manufacturing Deduction Rate Calculation:

Retail Production Net Plant	\$ 1,608,901,843
Retail Rate Base	\$ 4,796,583,943
Production Plant Percentage	33.54%
Manufacturing Deduction Percentage	9.0%
Manufacturing Deduction Rate	3.02%