BEFORE THE
ARKANSAS PUBLIC SERVICE COMMISSION

IN THE MATTER OF THE APPLICATION	)	
OF ENTERGY ARKANSAS, INC. FOR	)	DOCKET NO. 13-028-U
APPROVAL OF CHANGES IN RATES FOR	)	
RETAIL ELECTRIC SERVICE	)	

REHEARING DIRECT TESTIMONY

OF

HUGH T. MCDONALD

PRESIDENT AND CHIEF EXECUTIVE OFFICER
ENTERGY ARKANSAS, INC.

ON BEHALF OF

ENTERGY ARKANSAS, INC.

MARCH 14, 2014

I. BACKGROUND AND INTRODUCTION

Q. PLEASE STATE YOUR NAME.

A. My name is Hugh T. McDonald.

Q. ARE YOU THE SAME HUGH T. MCDONALD WHO PREVIOUSLY FILED TESTIMONY IN THIS DOCKET?

A. Yes, I am.

Q. ON WHOSE BEHALF ARE YOU TESTIFYING?

A. I am submitting this rehearing direct testimony to the Arkansas Public Service Commission ("APSC" or the "Commission") on behalf of Entergy Arkansas, Inc. ("EAI" or the "Company").

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The APSC granted EAI's petition for rehearing in this docket and allowed EAI to present new evidence related to the reaction of several security analysts and a rating agency to Order No. 21 (the "Order") as well as a report on Return on Equity ("ROE") decisions in other utility rate cases. My testimony will underscore the importance of granting the relief sought in EAI's petition for rehearing. The Company is at a crossroads. It needs financial stability to meet the challenges of operating independently of the Entergy System Agreement and the significant capital investment planned in the next few years. Now is not the time to test the Company's ability to meet these challenges if hindered by a sub-standard return on equity ("ROE"), a formula for calculating Allowance for Funds Used During Construction ("AFUDC") that does not fully recover financing costs, and disallowed costs that will prevent EAI from earning even the low allowed ROE.

Q. IS THE COMPANY SPONSORING OTHER WITNESSES?

A. Yes. EAI witness David Hunt, in his rehearing direct testimony, presents reports from equity financial analysts and a rating agency in response to the order. In addition, he provides a comparison of the ROE determination in this case with other regulatory commission ROE determinations in calendar year 2013 and historically, which demonstrates that the 9.3 percent ROE allowed for EAI in this case was the second lowest ROE awarded to a vertically integrated electric utility in 2013, the lowest non-penalty ROE awarded to a vertically integrated electric utility in 2013, and among the lowest ROEs ever awarded to an investor-owned, vertically integrated electric utility. In addition, former utility analyst Ellen Lapson of Lapson Consulting explains how the significant disparity in EAI's allowed ROE and that of other peer utilities has created a reaction among security analysts and a rating agency that is negative to EAI and its customers.

II. SUPPORT FOR RELIEF ON REHEARING

Q. WHY HAS EAI REQUESTED REHEARING OF THE ORDER?

A. EAI has just completed a decade-long transition out of the System Agreement and into operation in the Midcontinent Independent System Operator, Inc. ("MISO") Regional Transmission Organization. As a result, for the first time since 1951, EAI is operating and transacting in power markets on its own behalf rather than under the System Agreement.

In addition to operating within the new framework, the Company faces a number of other challenges in the near future. EAI must continue to make investments required to serve customers in its service territory. Plus, the industry is changing rapidly, and EAI plans to investment approximately $3.4 billion from 2012 through 2018[1] to meet evolving environmental standards, infrastructure needs in generation, transmission, and distribution, as well as, strategic initiatives like smart grid development and recruitment of energy intensive industries. Successfully addressing these initiatives will require the Commission's support, and the Order does just the opposite.

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[1] Lewis Direct Testimony at 5 (March 1, 2013).

Q. WHY DO YOU SAY THAT?

A. The reality facing EAI as a result of the Order is that a 9.3 percent allowed ROE will hinder the Company's ability to acquire capital and the cost of that capital will be higher. Further, the Order disallowed recovery of several categories of costs that do not go away because they are not reflected in rates, which will reduce the actual return of the Company even more. And finally, the cap on the AFUDC rate set in the Order will erode EAI's earnings even further as investments are completed and the cost of that investment, including AFUDC, is placed into rates that do not fully reflect actual financing costs.[2]

Q. WHAT OTHER IMPACT WILL THE ORDER HAVE?

A. It could negatively affect economic development in the state. EAI has a long history of active involvement in attracting industrial prospects to the communities it serves. EAI is heavily involved with the Arkansas Department of Economic Development and the Governor's office in major industrial retention and recruitment efforts. This is a benefit to the state because industrial growth brings more jobs and higher tax revenues, a benefit to the Company because growth produces higher revenues, and a benefit to customers because these higher revenues offset future rate increases. The effects of the Order impair EAI in

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[2] *See id.* at 7.

playing a major role in attracting new industry if that requires incentives and significant capital investment to induce an industrial prospect to locate in Arkansas.

Q. WHY SHOULD THE COMMISSION GRANT EAI ANY RELIEF ON THE ISSUES IN ITS PETITION?

A. There are at least two bases for the Commission to reconsider its decisions on issues in the Order that have come to light since it was issued. First, Ms. Lapson explains her view that the consensus reaction of financial analysts and a credit analysis firm is that the collective impact of the Order -- including the 9.3 percent allowed ROE, an AFUDC formula that does not fully compensate the Company for its financing costs, and other cost disallowances -- will inhibit the Company's ability to earn even this relatively low allowed ROE and will weaken the Company financially. As a result, as Ms. Lapson explains, the financial community will place a higher discount rate on Entergy Corporation's equity because of the perception of greater regulatory risk for EAI, which will increase the company's cost of capital. In addition, Moody's Investors Service ("Moody's") recently completed a review of the securities ratings of U.S. utilities by upgrading the securities ratings of more than 90 percent of the utilities under consideration. While Moody's upgraded the large majority of utilities under consideration, including other Entergy Operating Companies, Moody's did not upgrade EAI's securities ratings, citing the Order and continuing concern about regulatory lag.[3] As Ms. Lapson explains, the effect is a downgrade in rating compared to most of the Company's peers, which raises the cost for EAI to borrow money. This raises customers' rates.

Second, Ms. Lapson explains that not recognizing the effect of the Federal Reserve's monetary stimulus program and relying solely on a quantitative analysis in setting the Company's allowed ROE produced an unreasonable result that will hinder EAI's ability to secure long-term debt on favorable terms and make it more costly for equity investment in EAI. This raises customers' rates.

The Commission's granting of the Company's rehearing petition provides the Commission an opportunity to review the new evidence that EAI is submitting and to reconsider and revise its positions. By doing so, the Commission would address those issues that create the regulatory lag and weak operating cash flow ratios cited by Moody's in explaining why it did not upgrade EAI's securities ratings and that caused utility analysts to report the negative impact of the Order on EAI's financial position, including: a 9.3 percent allowed ROE, an AFUDC rate that does not fully compensate for construction cost

[3] *See* Hunt Rehearing Direct Testimony, EAI Exhibit DEH-8 (March 14, 2014).

financing, and cost disallowances that hinder the Company's ability to earn even the low allowed ROE.

The result of this rate case should be to position the Company to serve its customers in the post-System Agreement world and to support its communities in developing strong and vibrant economies. By granting the requested relief, the public interest will be served, and the Company will be spared the prospect of financial instability at this critical time.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

CERTIFICATE OF SERVICE

I, Steven K. Strickland, do hereby certify that a copy of the foregoing has been served upon all parties of record by forwarding the same by electronic mail and/or first class mail, postage prepaid, this 14th day of March 2014.

/s/ Steven K. Strickland
Steven K. Strickland

APSC FILED Time: 3/14/2014 1:41:45 PM: Recvd 3/14/2014 1:40:35 PM: Docket 13-028-U-Doc. 464

BEFORE THE
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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

REHEARING DIRECT TESTIMONY

OF

DAVID E. HUNT

DIRECTOR, REGULATORY FILINGS
ENTERGY SERVICES, INC.

ON BEHALF OF

ENTERGY ARKANSAS, INC.

MARCH 14, 2014

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME.

A. My name is David E. Hunt.

Q. ON WHOSE BEHALF ARE YOU TESTIFYING?

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

Q. ARE YOU THE SAME DAVID E. HUNT WHO ADOPTED THE DIRECT TESTIMONY OF PHILLIP B. GILLAM FILED IN THIS DOCKET ON MARCH 1, 2013, AND WHO FILED REBUTTAL TESTIMONY ON AUGUST 26, 2013, AND SUR-SURREBUTTAL TESTIMONY ON SEPTEMBER 23, 2013?

A. Yes, but my position and job responsibilities have changed.

Q. WHAT CHANGES TO YOUR POSITION AND JOB RESPONSIBILITIES HAVE OCCURRED SINCE YOU FILED SUR-SURREBUTTAL TESTIMONY?

A. Effective January 19, 2014, my new position is Director, Regulatory Filings for Entergy Services, Inc. ("ESI").[1] The Regulatory Filings Department is

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[1] ESI is a subsidiary of Entergy Corporation that provides technical and administrative services to all the Entergy Operating Companies, which include EAI; Entergy Gulf States Louisiana, L.L.C. ("EGSL"); Entergy Louisiana, LLC ("ELL"); Entergy Mississippi, Inc. ("EMI"); Entergy New Orleans, Inc. ("ENOI"); and Entergy Texas, Inc. ("ETI").

responsible for the development, analysis, presentation, and support of regulatory accounting data, revenue requirements, cost-of-service studies, rate design data, and related regulatory filings for the Entergy Operating Companies.

Q. ON WHOSE BEHALF ARE YOU TESTIFYING?

A. I am submitting this rehearing direct testimony to the Arkansas Public Service Commission ("APSC" or the "Commission") on behalf of Entergy Arkansas, Inc. ("EAI" or the "Company").

Q. WHAT IS THE PURPOSE OF YOUR REHEARING DIRECT TESTIMONY?

A. The purpose of my rehearing direct testimony is to submit, explain, and discuss certain additional evidence identified by EAI in support of its Petition for Rehearing and Clarification filed on January 29, 2014, its Supplement to Petition for Rehearing and Clarification filed on February 3, 2014, and its Reply to Responses to the Petition for Rehearing and Clarification filed on February 14, 2014, as addressed by Amended Order No. 25 issued February 26, 2014. EAI witness Hugh T. McDonald provides a summary of the Company's rehearing direct testimony and EAI witness Ellen Lapson provides analysis and comment with respect to the new evidence being submitted.

II. EQUITY FINANCIAL ANALYST AND RATING AGENCY DOCUMENTS

Q. AFTER THE APSC ISSUED ORDER NO. 21 IN THIS CASE (THE "ORDER"), DID SEVERAL EQUITY FINANCIAL ANALYSTS ISSUE REPORTS EVALUATING THE DECISION?

A. Yes. Several utility equity analysts made specific reference to the Order in reports, including Credit Suisse Securities Research & Analytics ("Credit Suisse"), UBS, Deutsche Bank ("DB") Markets Research, and International Strategy & Investment Group LLC ("ISI"). These well-recognized equity analyst reports are attached to my testimony as EAI Exhibit DEH-4 for the Credit Suisse report, EAI Exhibit DEH-5 for the UBS report, EAI Exhibit DEH-6 for the DB report, and EAI Exhibit DEH-7 for the ISI report. All four reports are available on a subscription-only basis and, as such, are provided in their entirety as confidential documents pursuant to the conditions of Interim Protective Order No. 2 in this docket.

Q. WAS THE ORDER A FACTOR IN ANY ACTIONS BY CREDIT RATING AGENCIES?

A. Yes. In November 2013, Moody's Investors Service ("Moody's") announced that it was reviewing a number of U.S. utilities for possible upgrade. Moody's released the results of its review in a series of reports in late January 2014, including a report focused on several Entergy Corporation subsidiaries, including EAI, which was released on

January 31, 2014.[2] Moody's upgraded credit ratings for EGSL, ELL, EMI, and ETI but maintained the ratings for EAI. The Moody's report is attached to my testimony as EAI Exhibit DEH-8.

III. ELECTRIC UTILITY ROE ANALYSIS

Q. THE ANALYST REPORTS AND MOODY'S RATINGS REPORT CHARACTERIZE THE 9.3 PERCENT ROE AS DISAPPOINTING OR NEGATIVE. ACCORDING TO REGULATORY RESEARCH ASSOCIATES, HOW DOES A 9.3 PERCENT ROE COMPARE TO OTHER SIMILAR UTILITIES?

A. A 9.3 percent ROE compares unfavorably, according to the Major Rate Case Decisions – Calendar 2013 report published by Regulatory Research Associates ("RRA") on January 15, 2014, attached as EAI Exhibit DEH-9. As with the equity analyst reports and the Moody's report, Amended Order No. 25 authorized the Company to introduce this document into evidence.

Q. CAN YOU BRIEFLY DESCRIBE THIS REPORT?

A. Yes. The Major Rate Case Decisions – Calendar 2013 report was prepared by RRA after the end of 2013 to summarize the results of the year's electric and gas rate case decisions. RRA updates this report on a

[2] Standard & Poor's is the other firm that issues credit ratings for Entergy Corporation and its affiliates. It has not issued any reports since the Order was issued.

quarterly basis throughout the year.[3] The report includes several facts from retail regulatory decisions in 2013, including overall rate of return on rate base, allowed return on equity, common equity as a percent of the utility's total capital structure, test year, rate base valuation method, and dollar amount of approved rate increase or decrease. RRA also provides significant information on a decision in footnotes to the report. For example, footnote D indicates that a decision was for electric delivery service only as compared to a decision for a vertically integrated utility such as EAI. The report also contains historical annual and/or quarterly rate of return and allowed ROE results since 1990. Access to RRA reports and the RRA database is provided on a subscription-only basis, and as such, the Major Rate Case Decisions – Calendar 2013 report is being provided pursuant to the conditions of Interim Protective Order No. 2 in this docket.

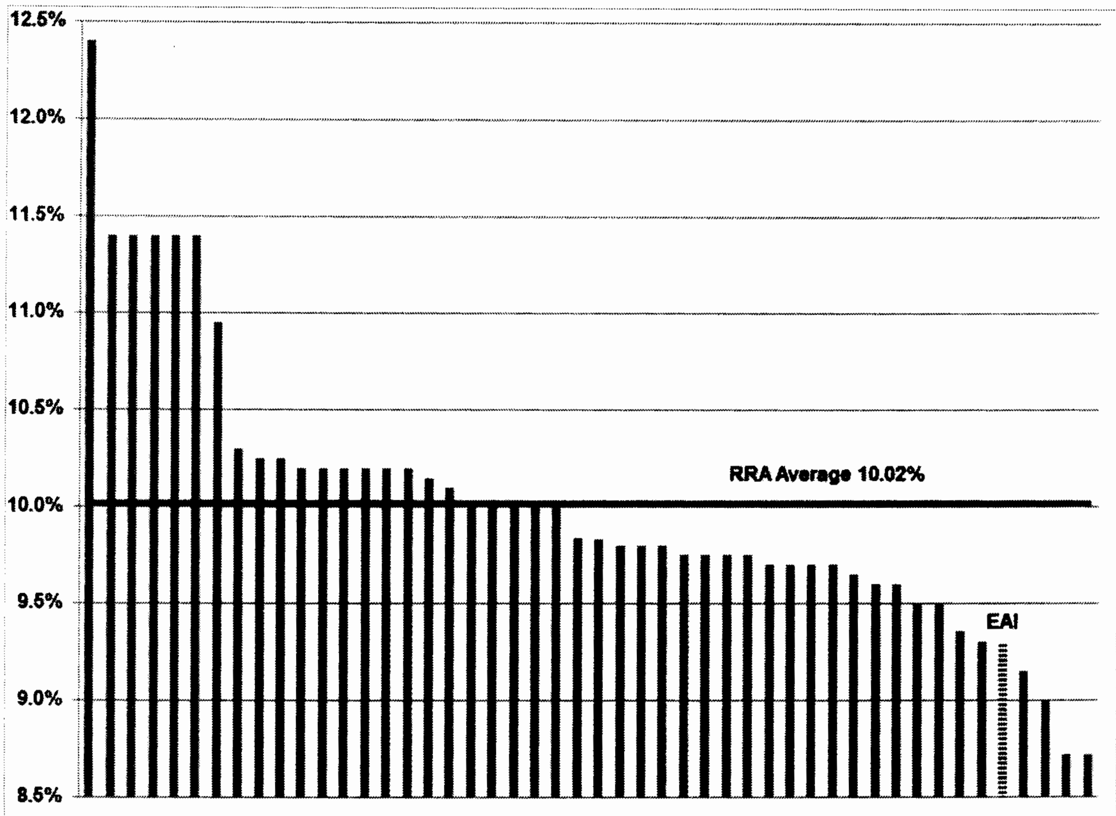
Q. WHAT IS THE AVERAGE ALLOWED ROE FROM REGULATORY PROCEEDINGS INVOLVING ELECTRIC UTILITIES IN 2013?

A. As tracked by RRA and stated in this report, the average ROE for electric utilities based on 2013 regulatory decisions was 10.02 percent. This average is based on 48 regulatory decisions in which an ROE was

[3] The RRA Major Rate Cases report updated through the third quarter of 2013 was received by the APSC as a proffer during the evidentiary hearing and marked as EAI Proffered Exhibit 1. *See* Hearing Transcript at 619. It was discussed in camera during the oral examination of EAI witness Samuel C. Hadaway. *See* Hearing Transcript at 620-627.

identified. Figure 1 below depicts these allowed ROEs from highest to lowest, the average, and the ROE determination for EAI in this case.

Figure 1
2013 Allowed ROEs For All Electric Utilities



Q. ARE THERE MATERIAL DIFFERENCES IN ALLOWED ROE BY QUARTER THROUGHOUT THE YEAR?

A. Although there was some variance between quarters, there was not an identifiable trend up or down throughout 2013. The quarterly results for 2013 are shown on Table 1.

Table 1
Allowed ROEs By Quarter in 2013[4]

Quarter	Average Allowed ROE
1^{ST}	10.24%
2^{ND}	9.84%
3^{RD}	10.06%
4^{TH}	9.89%

Q. IS THE 10.02 PERCENT AVERAGE ALLOWED ROE FOR ALL ELECTRIC UTILITIES IN 2013 THE BEST COMPARISON FOR EAI'S ALLOWED ROE?

A. No. The 2013 RRA results reflect a variety of regulatory decisions, including ROEs for specific generating facilities and ROEs for utilities that only provide transmission or distribution service. These utilities are identified by the footnotes mentioned earlier.[5] By excluding these results, the remaining decisions are for vertically integrated electric utilities, including EAI.

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[4] *See* EAI Exhibit DEH-9 at 3, which includes in its entirety the RRA Major Rate Case Decisions – Calendar 2013 report.

[5] *Id.* at 8-9. Footnotes D, 1, 2, 3, 5, 6, 7, 9, 14, 16, and 22 contain information that indicates an ROE result for something other than a vertically integrated electric utility. The February 22, 2013 decision for Baltimore Gas and Electric in Maryland does not have a footnote but that regulatory jurisdiction has deregulated generation, and the decision is for distribution only. See the footnote for the Maryland decision for Baltimore Gas & Electric on December 13, 2013, that used a different test year.

Q. WHY IS IT MORE APPROPRIATE TO COMPARE EAI TO VERTICALLY INTEGRATED ELECTRIC UTILITIES?

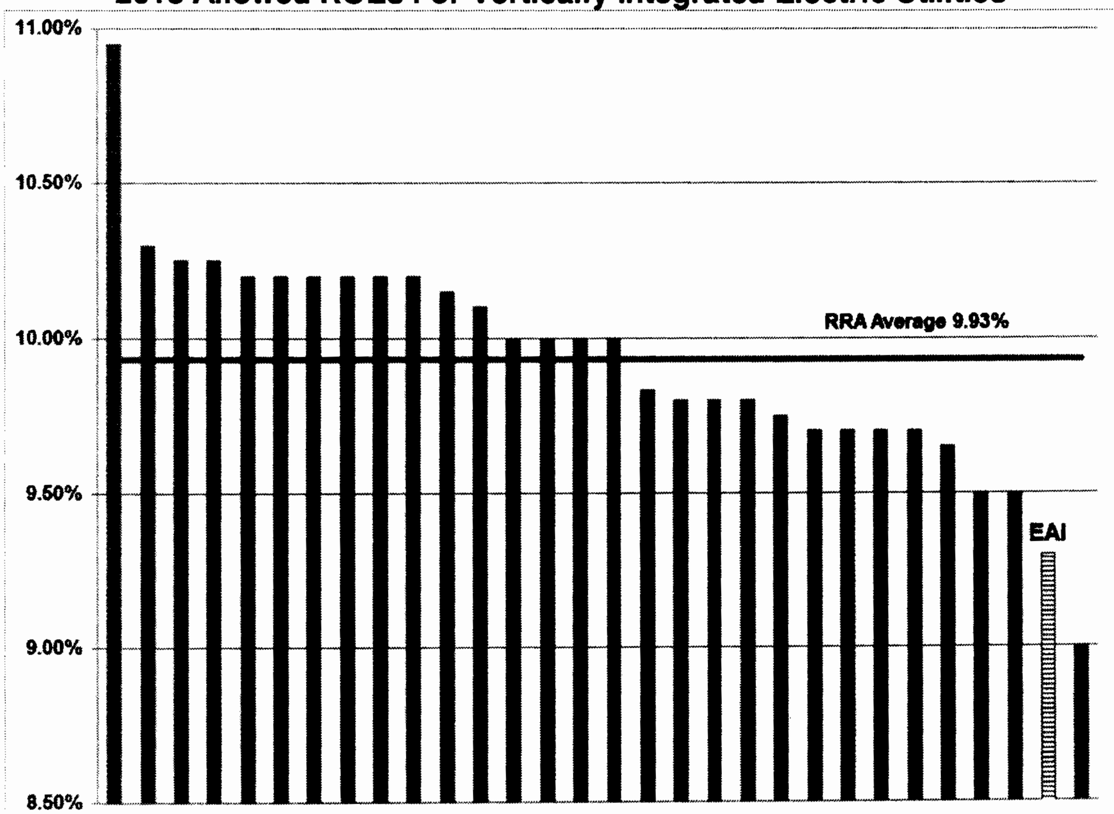
A. As RRA notes "...certain states unbundled electric rates and implemented retail competition for generation,"[6] which only allows the regulators in those states to have jurisdiction over the transmission and/or distribution service rates. A vertically integrated utility, with its additional responsibility for providing generation service, has a higher risk profile than a service provider with only transmission or distribution functions due to numerous factors including environmental compliance costs and other long-term generation planning requirements.

Q. WHAT ARE THE RESULTS ONCE YOU NARROW THE FOCUS TO VERTICALLY INTEGRATED ELECTRIC UTILITIES?

A. Of the 48 total ROE observations, 30 are for vertically integrated utilities. The average allowed ROE drops slightly to 9.93 percent from 10.02 percent. Using the same format as Figure 1, the 30 results, new average, and EAI's ROE set in the Order are presented in Figure 2.

[6] *Id.* at 2.

Figure 2
2013 Allowed ROEs For Vertically Integrated Electric Utilities



Q. OTHER THAN EAI'S ALLOWED ROE RESULT, ARE OTHER ENTERGY OPERATING COMPANY RESULTS INCLUDED IN THE RRA REPORT?

A. No other Entergy Operating Company allowed ROE is included in the RRA allowed ROE calculations or in Figures 1 or 2 above. EGSL and ELL are both listed on the RRA report as having December 2013 decisions, but no allowed ROE or other information is provided in the summary table of the report.[7] Footnotes 20 and 21 of the RRA report explain that both companies received approval under settlements to operate under a

[7] *Id.* at 6.

formula rate plan ("FRP") with a benchmark ROE of 9.95 percent in December 2013.[8]

Q. DO THE MOODY'S AND EQUITY ANALYSTS' REPORTS REFERENCE THE FRPS OR OTHER COST RECOVERY MECHANISMS IN PLACE AT OTHER ENTERGY OPERATING COMPANIES?

A. Yes. The Moody's report discusses the FRPs in place for EGSL, ELL, and EMI and notes that ETI operates in a regulatory jurisdiction where transmission and distribution investment surcharges may be used.[9] Credit Suisse also noted an investment preference for utilities with "...supportive regulation (ideally with formula rate plans)."[10]

Q. WHAT ARE THE ROES FOR THE ENTERGY OPERATING COMPANIES NOTED IN THESE REPORTS?

A. The currently allowed ROEs for the Entergy Operating Companies discussed above are summarized in Figure 3.

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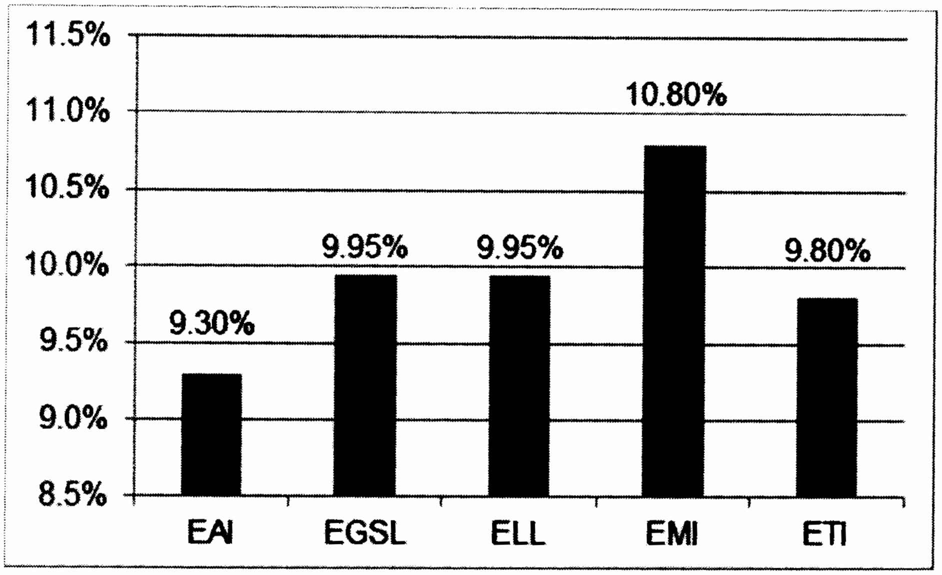
[8] *Id.* at 9.
[9] *See* EAI Exhibit DEH-8 at 1-2.
[10] *See* EAI Exhibit DEH-4 at 1.

Figure 3
Currently Allowed ROEs For Entergy Operating Companies[11]



Q. IN EAI'S REHEARING PETITION, THE 9.3 PERCENT ALLOWED ROE IS IDENTIFIED AS THE "LOWEST NON-PENALTY ROE AWARDED TO A VERTICALLY-INTEGRATED ELECTRIC UTILITY IN 2013."[12] PLEASE EXPLAIN THIS STATEMENT.

A. As reflected in Figure 2 above, there is one ROE result that was lower than EAI's 9.3 percent in 2013. This ROE result was based on a May 2013 decision involving Maui Electric Company, Limited ("MECO") before the Public Utilities Commission of the State of Hawaii ("Hawaii PUC"). In

[11] ETI's allowed ROE was granted in Public Utility Commission of Texas Docket No. D-39896, Order at 6 (September 14, 2012). ETI has appealed the ROE decision from that order. EMI's ROE noted by Credit Suisse was 10.59 percent, which reflects a rate adjustment limit in EMI's FRP. The 10.80 percent ROE is the allowed ROE used in EMI's FRP filing. For EMI's result, see Entergy's 4th Quarter 2013 Earnings Teleconference presentation at 20 (February 11, 2014). The presentation is available at http://investor.shareholder.com/entergy/events.cfm.
[12] EAI Petition for Rehearing and Clarification at 10 (January 29, 2014).

that proceeding, the Hawaii PUC modified a settlement agreement between MECO and other parties that used a negotiated ROE of 10 percent. In modifying the settlement agreement, the Hawaii PUC concluded, "Thus, a 9.50% ROE would have been acceptable but for MECO's inability to address certain apparent system inefficiencies, which are discussed in the section below."[13] The Hawaii PUC further explained:

> The commission finds it appropriate to adjust the Parties' stipulated ROE another 50 basis points downward in light of apparent system inefficiencies which negatively impact MECO's customers. For example, MECO appears unable to properly address known renewable energy curtailment issues....MECO appears to have failed to adequately and sufficiently plan for and implement the necessary modifications to its existing operations to accept a more appropriate level of the wind energy generation made available to MECO, negatively impacting ratepayers through higher electricity rates. Additionally, among other matters, MECO appears unable to control operational costs such as pension costs which are discussed above.[14]

Absent the 50 basis point (0.5 percent) penalty assessed by the Hawaii PUC, MECO's allowed ROE would have been 9.5 percent leaving EAI's 9.3 percent allowed ROE as the lowest allowed ROE for a vertically integrated electric utility in 2013.

[13] Hawaii PUC, Docket No. 2011-0092, Decision and Order No. 31288 at 107 (May 31, 2013).
[14] *Id.* at 107-110.

Q. EAI'S REHEARING PETITION ALSO STATED THAT THE 9.3 PERCENT ROE "IS THE SECOND LOWEST NON-PENALTY ROE GRANTED TO A VERTICALLY INTEGRATED ELECTRIC UTILITY IN RECENT DECADES."[15] WHAT IS THE BASIS FOR THIS STATEMENT?

A. Along with issuing annual rate case reports discussed previously, RRA maintains a database of regulatory decisions that extends back to 1980. This database contains the summary information for approximately 1,700 electric utility rate cases, including over 1,400 where an allowed ROE is identified. Of the 1,400 cases where an allowed ROE was identified, there are only 13 decisions that have an ROE of 9.3 percent or lower. Of those 13 decisions, only three cases involve vertically integrated utilities, and all three decisions were rendered in 2012 or 2013. The three utilities and jurisdictions involved are MECO in Hawaii, EAI in Arkansas, and Northern States Power ("NSP") in South Dakota.

Q. YOU HAVE ALREADY DISCUSSED THE MECO DECISION. PLEASE PROVIDE SOME DETAILS OF THE NSP CASE IN SOUTH DAKOTA.

A. NSP received the lowest non-penalty, allowed ROE awarded to a vertically integrated utility since 1980 as tracked by RRA. In June 2012, the South Dakota Public Utilities Commission ("South Dakota PUC") approved an NSP rate increase that included an allowed ROE of 9.25

[15] EAI Petition for Rehearing and Clarification at 8-9 (January 29, 2014).

percent.[16] In contrast to MECO, the order did not reference any specific issues with NSP's operations that influenced the ROE decision.

Q. WHAT HAPPENED AFTER THE SOUTH DAKOTA PUC'S DECISION?

A. NSP filed a new rate case in South Dakota shortly after the 2012 decision. Much like EAI, NSP planned to make significant capital expenditures and needed a supportive ROE. In its filing, NSP explained its need for an appropriate ROE in direct testimony:

> Q. IS THE LEVEL OF ROE ESPECIALLY IMPORTANT IN LIGHT OF THE COMPANY'S PLAN FOR FUTURE INVESTMENTS?
>
> A. Yes. An appropriate ROE and a supportive state regulatory framework are key contributors to our ability to raise significant capital at reasonable rates. Our plan of investment in generation, transmission and distribution will result in approximately $5.9 billion of expenditures between 2012 and 2016. We will need to turn to the capital markets to support the level of investment that is needed.
>
> Given this magnitude of investment, we have a common interest with our regulators and customers in having the Commission set an appropriate ROE and allowing us a reasonable opportunity to earn that ROE. Absent these conditions, the cost of capital for the investments we need to make to serve our customers would be higher than otherwise necessary, increasing the rate impact on our customers.[17]

[16] South Dakota PUC, Docket No. EL11-019, South Dakota PUC Transcript of Proceedings at 10 – 11 (June 19, 2012); Final Decision and Order; Notice of Entry at 2 (July 2, 2012).

[17] South Dakota PUC Docket No. EL12-046, Direct Testimony of Laura McCarten at 15 (June 29, 2012).

Q. WHAT WAS THE RESULT OF NSP'S SUBSEQUENT RATE CASE?

A. On April, 18, 2013, the South Dakota PUC approved a settlement between NSP and the South Dakota PUC Staff for a rate increase that did not have a specified allowed ROE.[18] There was an agreed upon rate of return on rate base of 7.78 percent but other elements – debt ratio, equity ratio, debt rate, return on equity – were not specified. Based on this result, customer rates reflecting the 9.25 percent ROE decision have been superseded and are no longer in effect.

Q. DOES THIS CONCLUDE YOUR REHEARING DIRECT TESTIMONY?

A. Yes.

[18] *See* EAI Exhibit DEH-9 at 5.

CERTIFICATE OF SERVICE

I, Steven K. Strickland, do hereby certify that a copy of the foregoing has been served upon all parties of record by forwarding the same by electronic mail and/or first class mail, postage prepaid, this 14th day of March, 2014.

/s/ Steven K. Strickland
Steven K. Strickland

APSC FILED Time: 3/14/2014 1:41:45 PM: Recvd 3/14/2014 1:40:35 PM: Docket 13-028-U-Doc. 464

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EAI EXHIBIT DEH-4

CREDIT SUISSE

UTILITY ROE TRENDS IN 2013

JANUARY 2, 2014

THIS EXHIBIT CONTAINS CONFIDENTIAL PROTECTED INFORMATION PROVIDED PURSUANT TO THE COMMISSION'S INTERIM PROTECTIVE ORDER NO. 2 ISSUED ON FEBRUARY 21, 2013 IN THIS DOCKET.

[redacted]

Utility ROE Trends in 2013

COMMENT

ETR and ED End Year On Soft Notes

[redacted]

[redacted]

[redacted]

[redacted]

- [redacted] We think the low allowed ROE in Arkansas (where there is more risk than in NY at the same ROE) will sustain questions about the supportiveness of ETR's states and the ability for ETR to execute on the utility growth strategy.

[redacted]

Exhibit 1: 2013 Rate Case Outcomes

[redacted] 464

[redacted]

Source: Company data, Credit Suisse estimates

Exhibit 2: 2012 Rate Case Outcomes

[redacted]-028-U-Doc. 464

Source: Company data, Credit Suisse estimates

[redacted]

Disclosure Appendix

[redacted]

APSC FILED Time: 3/14/2014 1:41:45 PM: Recvd 3/14/2014 1:40:35 PM: Docket 13-028-U-Doc. 464

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Please refer to the firm's disclosure website at https://rave.credit-suisse.com/disclosures for the definitions of abbreviations typically used in the target price method and risk sections.

See the Companies Mentioned section for full company names

[redacted]

For Credit Suisse disclosure information on other companies mentioned in this report, please visit the website at https://rave.credit-suisse.com/disclosures or call +1 (877) 291-2683.

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EAI EXHIBIT DEH-5

UBS

US IPP WEEKLY POWER POINTS

JANUARY 6, 2014

THIS EXHIBIT CONTAINS CONFIDENTIAL PROTECTED INFORMATION PROVIDED PURSUANT TO THE COMMISSION'S INTERIM PROTECTIVE ORDER NO. 2 ISSUED ON FEBRUARY 21, 2013 IN THIS DOCKET

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US IPP Weekly Power Points
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Equities

Americas
Electric Utilities

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[redacted]

Entergy's awarded 9.3% ROE by AR PSC

[redacted]

We read the decision negatively vs. our expectations. *Vs. the 9.8% normalized ROE posted in 2012, we see the potential for a revenue reduction, or more importantly a relatively flat net income profile.* [redacted]

[redacted]

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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

EAI EXHIBIT DEH-6

DEUTSCHE BANK MARKETS RESEARCH

DB UTILITY SPOTLIGHT (#144)

JANUARY 3, 2014

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Deutsche Bank
Markets Research

North America
United States
Industrials
Utilities and Power

Industry
DB Utility Spotlight (#144)

Date
3 January 2014

Industry Update

Utilities hoping for a better 2014

[redacted]

[redacted]

Deutsche Bank Securities Inc.

[redacted]et 13-028-U-Doc. 464

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Utility events – next week

[redacted]

[redacted]cket 13-028-U-Doc. 464

Utility events – past week

[redacted]

Entergy Corp. (ETR) – Final order in AR rate case

[redacted] We viewed the order negatively for ETR, particularly since the commission has recommended additional cost disallowances versus Staff's recommendation and a lower ROE. In the order, the PSC has directed Staff to file an updated revenue deficiency as compared to Staff's most recent $110M recommendation based on an ROE of 9.3% vs. the 9.6% ROE recommended by Staff and cost disallowances totaling about $15M related to incentive compensation.

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Appendix 1

[redacted]

[redacted]

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APSC FILED Time: 3/14/2014 1:41:45 PM: Recvd 3/14/2014 1:40:35 PM: Docket 13-028-U-Doc. 464

BEFORE THE
ARKANSAS PUBLIC SERVICE COMMISSION

IN THE MATTER OF THE APPLICATION	)	
OF ENTERGY ARKANSAS, INC. FOR	)	DOCKET NO. 13-028-U
APPROVAL OF CHANGES IN RATES FOR	)	
RETAIL ELECTRIC SERVICE	)	

EAI EXHIBIT DEH-7

INTERNATIONAL STRATEGY & INVESTMENT GROUP LLC
POWER & UTILITIES RESEARCH
DIVERSIFIED UTILITIES

ENTERGY CORP (ETR)

JANUARY 3, 2014

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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

EAI EXHIBIT DEH-8

MOODY'S INVESTORS SERVICE

"RATING ACTION: MOODY'S UPGRADES CERTAIN ENTERGY SUBSIDIARIES, OUTLOOKS STABLE"

JANUARY 31, 2014

MOODY'S
INVESTORS SERVICE

Rating Action: Moody's upgrades certain Entergy subsidiaries, outlooks stable

Global Credit Research - 31 Jan 2014

Approximately $11 Billion of Debt Securities Upgraded

New York, January 31, 2014 -- Moody's Investors Service upgraded the long-term ratings of Entergy Gulf States Louisiana, LLC (Issuer Rating to Baa1 from Baa2, Senior Secured to A2 from A3, Preferred Stock to Baa3 from Ba1); Entergy Louisiana, LLC (Issuer Rating and Senior Unsecured to Baa1 from Baa2, Senior Secured to A2 from A3, Preferred Stock to Baa3 from Ba1); Entergy Mississippi, Inc. (Issuer Rating to Baa2 from Baa3, Senior Secured to A3 from Baa1, Preferred Stock to Ba1 from Ba2); and Entergy Texas, Inc. (Issuer Rating to Baa3 from Ba1, Senior Secured to Baa1 from Baa2, and Senior Secured Shelf to (P)Baa1 from (P)Baa2).

Moody's also confirmed the rating of Entergy Arkansas, Inc. This rating action concludes the review of these companies' ratings Moody's initiated on November 8, 2013. The rating outlooks of Entergy Corporation and all of its subsidiaries are stable.

RATINGS RATIONALE

Moody's had placed the ratings on review for upgrade in response to Moody's more favorable view of the relative credit supportiveness of the US regulatory environment, as detailed in the September 2013 Request for Comment titled "Proposed Refinements to the Regulated Utilities Rating Methodology and our Evolving View of US Utility Regulation." Among the critical factors supporting this view include better cost recovery provisions, reduced regulatory lag, and generally fair and open relationships between utilities and regulators. The US utility sector's low number of defaults, high recovery rates, and generally strong financial metrics from a global perspective provide additional corroboration for these upgrades.

Entergy Gulf States Louisiana (EGSL) is regulated by the Louisiana Public Service Commission (LPSC), which has provided a relatively stable and credit supportive regulatory environment. Like other major utilities in the state, EGSL operates with earnings-sharing mechanisms and Formula Rate Plan (FRP). Moody's generally views FRPs as a credit positive, since they reduce regulatory lag and provide transparency on cost recoveries. EGSL has been operating under an FRP established in 2009 with an ROE mid-point of 10.65% and a +/- 75 basis point bandwidth. Earnings outside the bandwidth are allocated 60% to customers and 40% to the company. The company has recently over-earned under the FRP. LTM third-quarter 2013 metrics further justify the rationale, with Cash Flow Interest Coverage of 6.9x and CFO pre-WC to debt of 29%.

Entergy Louisiana (EL) is also regulated by the LPSC and benefits from a similar earnings-sharing mechanism and FRP structure. EL's FRP through 2012 incorporated a ROE mid-point of 10.25% and a +/- 80 basis point bandwidth, which included a recovery mechanism for LPSC-approved capacity additions. Similar to EGSL's FRP, earnings outside EL's bandwidth are allocated 60% to customers and 40% to the company. In December 2013, the LPSC and EL filed a settlement for its pending rate case, under which EL's base rates were to remain unchanged and the company was allowed to operate under a FRP through the 2016 test-year. The updated FRP incorporated a ROE of 9.95% and +/- 80 basis point bandwidth. In addition, the settlement included several riders outside of the FRP formula, including a capacity rider and the ability to recover costs associated with EL's MISO integration. EL is also permitted to implement a $10 million base rate increase in December 2014. Certain other costs, including MISO related costs, capacity and purchase costs, environmental-related costs, efficiency-related costs, storm costs, and certain depreciation and decommissioning costs would be recover outside of the FRP mechanism. LTM third-quarter 2013 metrics further justify the rationale, with Cash Flow Interest Coverage of 5.5x and CFO pre-WC to debt of 20%.

Mississippi has traditionally fostered a fairly supportive regulatory environment for investor owned utilities. Entergy Mississippi (EM) has benefited from an ability to recover fuel costs in rates on a timely basis by filing for small but relatively frequent adjustments in rates. The company operates under a FRP that was modified in March 2010 to align it more with FRPs of other utilities in Mississippi. The modification replaced the old revenue change limit (2% with a $14.5 million cap) with a 4% limit (no dollar cap), with any adjustment over 2% requiring a hearing. These changes were slightly positive from a credit standpoint. In August 2013, the MPSC approved $22.3 rate increase, which would reset EM's ROE to 10.59%, which compares to an 8.96% earned ROE for 2012, with the increase effective as of September 2013. LTM third-quarter 2013 metrics further justify the rationale, with Cash Flow Interest Coverage of 4.6x and CFO pre-WC to debt of 19%.

Moody's generally views the regulatory climate in Texas as credit positive for transmission and distribution utilities operating within ERCOT but somehow challenging for vertically integrated utilities operating outside of ERCOT. The PUC generally has not permitted the utilities to include construction work in progress (CWIP) in rate base, with the exception of certain environmental compliance costs. However, the companies are permitted to adjust rates through surcharge mechanisms to reflect certain types of new transmission and distribution investment, fuel and purchased power costs are recovered through a separate fuel factor, the level of which is established in base rate cases.

On September 2013, ET filed a rate case with the PUCT requesting a $38.6 million base rate increase, reflecting a 10.4% ROE based on a test year ending March 31, 2013. ET also sought to implement several riders, including a rough production cost equalization adjustment rider (Rider RPCEA), a rate case expense rider (Rider RCE), deferred tax accounting rider (Rider DTA), and a transmission cost recovery rider (Rider TCRF). On January 17, the PUCT's staff filed testimony regarding the pending case recommending that the PUCT approve a $3.4 million base rate increase based on 9.2% ROE, the settlement decision is expected by March 5, after rebuttal testimony, hearing, and briefs. The resolution of this case will be an important indicator of the trend in long-term credit supportiveness of Texas's regulatory environment. Despite being on a quarterly basis, LTM third-quarter 2013 metrics were stronger than initially projected, with Cash Flow Interest Coverage of 5.4x and CFO pre-WC to debt of 25%. Fiscal year end 2012 metrics were 4.5x Cash Flow Interest Coverage and 20% CFO pre-WC to debt.

Moody's confirmed the ratings of Entergy Arkansas based on the less than favorable rate case outcomes in May 2010 and December 2013. Arkansas operates under traditional rate of return regulation rather than the more credit supportive formula rate plans in place in Louisiana and Mississippi, where Entergy's other large subsidiaries operate. The rate of return regulation contributes to regulatory lag at Entergy Arkansas (EA). Under Arkansas regulation, the test year is either fully historical or 6 months historical and 6 months projected. However, there are fuel and certain other riders that help offset some aspects of the lag.

Historically, EA has experienced a relatively challenging regulatory environment. In March 2013, EA filed for a rate increase with the Arkansas Public Service Commission (APSC) that included MISO and capacity costs riders, receiving a decision in December 2013. The outcome was disappointing as EA received a base rate increase of $81 million (without specifying the amounts to be recovered through MISO and Capacity Costs riders) based on a 9.3% ROE, significantly below its requested base rate increase of $145 million based on 10.4% ROE. Resolution of EA's May 2010 rate case also yielded an increase below that expected of $63.7 million (10.3% ROE) against the expected $168 million (10.6% ROE). LTM third-quarter 2013 metrics are consistent with that of fiscal year end 2012, with Cash Flow Interest Coverage of 4.5x and CFO pre-WC to debt of 13%. According to Moody's adjusted projections, EA will be able to maintain appropriate metrics for the rating, including CFO pre-WC to debt, and CFO pre-WC -- Div to debt of around 16% and 14% respectively.

Rating Outlook

Entergy Gulf States Louisiana, Entergy Louisiana, and Entergy Mississippi outlooks are stable, reflecting that Moody's expects the companies will continue to exhibit financial metrics that are appropriate for their current ratings, that in Louisiana formula rate plan will continue to provide regulatory transparency and certainty, and that Mississippi's regulation will remain reasonably long-term credit supportive and allow the recovery of prudently incurred costs.

Entergy Texas' rating outlook is stable, reflecting Moody's view that the company will continue to generate adequate metrics for its rating. Although the regulatory lag for vertically integrated utilities will remain less credit supportive over the medium term in Texas, Moody's does not expect the regulatory environment to deteriorate. According to Moody's adjusted projections, ET will likely be able to maintain appropriate metrics for the rating, including CFO pre-WC to debt, and CFO pre-WC -- Div to debt of around 15% and 12% respectively.

Entergy Arkansas' rating outlook is stable, reflecting Moody's expectation that the utility's financial metrics will maintain levels that are appropriate for its rating despite the company's disappointing rate case outcomes. The outlook also assumes that regulatory lag will remain manageable and that the issues surrounding the company's exit from the Entergy System Agreement will be resolved in a manner not detrimental to credit quality. According to Moody's adjusted projections, EA will likely be able to maintain appropriate metrics for the rating, including CFO pre-WC to debt, and CFO pre-WC -- Div to debt of around 16% and 14% respectively.

What Could Change the Rating - Up

Entergy Gulf States Louisiana and Entergy Louisiana ratings could be upgraded if material long-term credit improvements were to happen in Louisiana regulation that set the state far above other jurisdictions in the US, if economic conditions in its service territory continued to improve, and if recently improved financial metrics were sustained in the absence of bonus depreciation, including consistent CFO pre-WC plus interest to interest above 5.5x and CFO pre-WC to debt nearing the mid-20% range.

The ratings for Entergy Mississippi could be further upgraded if there were an improvement in the regulatory and political environment in the state, or if there were a sustained increase in EM's cash flow coverage metrics, including CFO pre- WC to debt above 19%.

The rating of Entergy Texas is unlikely to be upgraded in the near term; however an upgrade could come under consideration if there is a material and sustained improvement in the regulatory environment in Texas for vertically integrated utilities --outside ERCOT- including the implementation of long-term credit-supportive rate design and cost recovery mechanisms, and continued strong financial metrics, including CFO pre-WC to Debt above 16% on a sustained basis.

The ratings of Entergy Arkansas could be upgraded if there were an improvement in the credit supportiveness of the regulatory environment in Arkansas, along with a sustainable increase in cash flow coverage metrics, including CFO pre-WC to debt above 22%.

What Could Change the Rating - Down

The ratings for Entergy Gulf States Louisiana, Entergy Louisiana, and Entergy Mississippi could be downgraded if there were a deterioration in the regulatory environment for utilities in Louisiana, and Mississippi, if there were significant additional storm costs that were not recovered on a timely basis through the regulatory process, or if financial metrics excluding bonus depreciation exhibited a sustained decline.

The ratings of Entergy Texas could be downgraded if the business and regulatory environment in which it operates were to deteriorate, if pending or future rate case outcomes are detrimental to its credit profile, or if there were a significant decline in financial metrics, including CFO pre-WC to debt below 13% on a sustained basis.

The ratings of Entergy Arkansas could be downgraded if there were continuous adverse regulatory developments, if there were a termination or any changes to the utility's rate riders that would prevent full and timely recovery of prudently incurred costs, or if there is not an improvement in cash flow coverage metrics from unusually low 2012 and 2013 levels, including CFO pre-WC to debt below 15% for an extended period.

The principal methodology used in these ratings was Regulated Electric and Gas Utilities published in December 2013. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

The following ratings of Entergy Gulf States Louisiana are upgraded:

Issuer Rating to Baa1 from Baa2

Preference Stock to Baa3 from Ba1

Pref. Shelf to (P)Baa3 from (P)Ba1

First Mortgage Bonds to A2 from A3

The outlook of Entergy Gulf States Louisiana is stable from RUR-UP

The following ratings of Entergy Louisiana are upgraded:

Issuer Rating to Baa1 from Baa2

Senior Unsecured to Baa1 from Baa2

Pref. Stock to Baa3 from Ba1

Backed First Mortgage Bonds to A2 from A3

Underlying First Mortgage Bonds to A2 from A3

First Mortgage Bonds to A2 from A3

The outlook of Entergy Louisiana is stable from RUR-UP

The following rating of W3A Funding Corporation has been upgraded:

BACKED Senior Secured Shelf to (P)Baa1 from (P)Baa2

The outlook of W3A Funding Corporation is stable from RUR-UP

The following ratings of Entergy Mississippi are upgraded:

Issuer Rating to Baa2 from Baa3

Senior Secured Shelf to (P)A3 from (P)Baa1

Pref. Stock to Ba1 from Ba2

Underlying First Mortgage Bonds to A3 from Baa1

First Mortgage Bonds to A3 from Baa1

Backed First Mortgage Bonds to A3 from Baa1

The outlook of Entergy Mississippi is stable from RUR-UP

The following ratings of Entergy Texas are upgraded:

Issuer Rating to Baa3 from Ba1

Senior Secured Shelf to (P)Baa1 from (P)Baa2

First Mortgage Bonds to Baa1 from Baa2

The outlook of Entergy Texas is stable from RUR-UP

The following ratings of Entergy Arkansas, Inc. are confirmed:

Issuer Rating, Confirmed at Baa2

Pref. Stock Preferred Stock, Confirmed at Ba1

Pref. Stock Shelf, Confirmed at (P)Ba1

Senior Secured First Mortgage Bonds, Confirmed at A3

The outlook of Entergy Arkansas, Inc. is stable from RUR-UP

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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

EAI EXHIBIT DEH-9

REGULATORY RESEARCH ASSOCIATES

MAJOR RATE CASE DECISIONS – CALENDAR 2013

JANUARY 15, 2014

THIS EXHIBIT CONTAINS CONFIDENTIAL PROTECTED INFORMATION PROVIDED PURSUANT TO THE COMMISSION'S INTERIM PROTECTIVE ORDER NO. 2 ISSUED ON FEBRUARY 21, 2013 IN THIS DOCKET

APSC FILED Time: 3/14/2014 1:37:51 PM: Recvd 3/14/2014 1:36:59 PM: Docket 13-028-U-Doc. 463

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

REHEARING DIRECT TESTIMONY

OF

HUGH T. MCDONALD

PRESIDENT AND CHIEF EXECUTIVE OFFICER
ENTERGY ARKANSAS, INC.

ON BEHALF OF

ENTERGY ARKANSAS, INC.

MARCH 14, 2014

I. BACKGROUND AND INTRODUCTION

Q. PLEASE STATE YOUR NAME.

A. My name is Hugh T. McDonald.

Q. ARE YOU THE SAME HUGH T. MCDONALD WHO PREVIOUSLY FILED TESTIMONY IN THIS DOCKET?

A. Yes, I am.

Q. ON WHOSE BEHALF ARE YOU TESTIFYING?

A. I am submitting this rehearing direct testimony to the Arkansas Public Service Commission ("APSC" or the "Commission") on behalf of Entergy Arkansas, Inc. ("EAI" or the "Company").

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The APSC granted EAI's petition for rehearing in this docket and allowed EAI to present new evidence related to the reaction of several security analysts and a rating agency to Order No. 21 (the "Order") as well as a report on Return on Equity ("ROE") decisions in other utility rate cases. My testimony will underscore the importance of granting the relief sought in EAI's petition for rehearing. The Company is at a crossroads. It needs financial stability to meet the challenges of operating independently of the Entergy System Agreement and the significant capital investment planned in the next few years. Now is not the time to test the Company's ability to meet these challenges if hindered by a sub-standard return on equity ("ROE"), a formula for calculating Allowance for Funds Used During Construction ("AFUDC") that does not fully recover financing costs, and disallowed costs that will prevent EAI from earning even the low allowed ROE.

Q. IS THE COMPANY SPONSORING OTHER WITNESSES?

A. Yes. EAI witness David Hunt, in his rehearing direct testimony, presents reports from equity financial analysts and a rating agency in response to the order. In addition, he provides a comparison of the ROE determination in this case with other regulatory commission ROE determinations in calendar year 2013 and historically, which demonstrates that the 9.3 percent ROE allowed for EAI in this case was the second lowest ROE awarded to a vertically integrated electric utility in 2013, the lowest non-penalty ROE awarded to a vertically integrated electric utility in 2013, and among the lowest ROEs ever awarded to an investor-owned, vertically integrated electric utility. In addition, former utility analyst Ellen Lapson of Lapson Consulting explains how the significant disparity in EAI's allowed ROE and that of other peer utilities has created a reaction among security analysts and a rating agency that is negative to EAI and its customers.

II. SUPPORT FOR RELIEF ON REHEARING

Q. WHY HAS EAI REQUESTED REHEARING OF THE ORDER?

A. EAI has just completed a decade-long transition out of the System Agreement and into operation in the Midcontinent Independent System Operator, Inc. ("MISO") Regional Transmission Organization. As a result, for the first time since 1951, EAI is operating and transacting in power markets on its own behalf rather than under the System Agreement.

In addition to operating within the new framework, the Company faces a number of other challenges in the near future. EAI must continue to make investments required to serve customers in its service territory. Plus, the industry is changing rapidly, and EAI plans to investment approximately $3.4 billion from 2012 through 2018[1] to meet evolving environmental standards, infrastructure needs in generation, transmission, and distribution, as well as, strategic initiatives like smart grid development and recruitment of energy intensive industries. Successfully addressing these initiatives will require the Commission's support, and the Order does just the opposite.

---

[1] Lewis Direct Testimony at 5 (March 1, 2013).

Q. WHY DO YOU SAY THAT?

A. The reality facing EAI as a result of the Order is that a 9.3 percent allowed ROE will hinder the Company's ability to acquire capital and the cost of that capital will be higher. Further, the Order disallowed recovery of several categories of costs that do not go away because they are not reflected in rates, which will reduce the actual return of the Company even more. And finally, the cap on the AFUDC rate set in the Order will erode EAI's earnings even further as investments are completed and the cost of that investment, including AFUDC, is placed into rates that do not fully reflect actual financing costs.[2]

Q. WHAT OTHER IMPACT WILL THE ORDER HAVE?

A. It could negatively affect economic development in the state. EAI has a long history of active involvement in attracting industrial prospects to the communities it serves. EAI is heavily involved with the Arkansas Department of Economic Development and the Governor's office in major industrial retention and recruitment efforts. This is a benefit to the state because industrial growth brings more jobs and higher tax revenues, a benefit to the Company because growth produces higher revenues, and a benefit to customers because these higher revenues offset future rate increases. The effects of the Order impair EAI in

[2] *See id.* at 7.

playing a major role in attracting new industry if that requires incentives and significant capital investment to induce an industrial prospect to locate in Arkansas.

Q. WHY SHOULD THE COMMISSION GRANT EAI ANY RELIEF ON THE ISSUES IN ITS PETITION?

A. There are at least two bases for the Commission to reconsider its decisions on issues in the Order that have come to light since it was issued. First, Ms. Lapson explains her view that the consensus reaction of financial analysts and a credit analysis firm is that the collective impact of the Order -- including the 9.3 percent allowed ROE, an AFUDC formula that does not fully compensate the Company for its financing costs, and other cost disallowances -- will inhibit the Company's ability to earn even this relatively low allowed ROE and will weaken the Company financially. As a result, as Ms. Lapson explains, the financial community will place a higher discount rate on Entergy Corporation's equity because of the perception of greater regulatory risk for EAI, which will increase the company's cost of capital. In addition, Moody's Investors Service ("Moody's") recently completed a review of the securities ratings of U.S. utilities by upgrading the securities ratings of more than 90 percent of the utilities under consideration. While Moody's upgraded the large majority of utilities under consideration, including other Entergy Operating Companies, Moody's did not upgrade EAI's securities ratings, citing the Order and continuing concern about regulatory lag.[3] As Ms. Lapson explains, the effect is a downgrade in rating compared to most of the Company's peers, which raises the cost for EAI to borrow money. This raises customers' rates.

Second, Ms. Lapson explains that not recognizing the effect of the Federal Reserve's monetary stimulus program and relying solely on a quantitative analysis in setting the Company's allowed ROE produced an unreasonable result that will hinder EAI's ability to secure long-term debt on favorable terms and make it more costly for equity investment in EAI. This raises customers' rates.

The Commission's granting of the Company's rehearing petition provides the Commission an opportunity to review the new evidence that EAI is submitting and to reconsider and revise its positions. By doing so, the Commission would address those issues that create the regulatory lag and weak operating cash flow ratios cited by Moody's in explaining why it did not upgrade EAI's securities ratings and that caused utility analysts to report the negative impact of the Order on EAI's financial position, including: a 9.3 percent allowed ROE, an AFUDC rate that does not fully compensate for construction cost

[3] *See* Hunt Rehearing Direct Testimony, EAI Exhibit DEH-8 (March 14, 2014).

financing, and cost disallowances that hinder the Company's ability to earn even the low allowed ROE.

The result of this rate case should be to position the Company to serve its customers in the post-System Agreement world and to support its communities in developing strong and vibrant economies. By granting the requested relief, the public interest will be served, and the Company will be spared the prospect of financial instability at this critical time.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

CERTIFICATE OF SERVICE

I, Steven K. Strickland, do hereby certify that a copy of the foregoing has been served upon all parties of record by forwarding the same by electronic mail and/or first class mail, postage prepaid, this 14th day of March 2014.

/s/ Steven K. Strickland

Steven K. Strickland