



RECEIVED

Entergy Arkansas  
425 West Capitol Avenue  
P.O. Box 551  
Little Rock, AR 72203  
Tel 501 377 4000

2014 APR 21 AM 10:00

T.R.A. DOCKET ROOM

**VIA OVERNIGHT MAIL**

April 18, 2014

Chairman James M. Allison  
Tennessee Regulatory Authority  
502 Deaderick Street, 4<sup>th</sup> Fl.  
Nashville, TN 37243

Re: Tennessee Regulatory Authority (TRA) Docket No. 14-00050  
Entergy Arkansas, Inc. Application for Approval of the Extension  
and Amendment of Synthetic Railcar Lease

Dear Chairman Allison:

Attached are the original and thirteen copies of Entergy Arkansas, Inc.'s (EAI or the Company) Application and supporting Direct Testimonies of EAI witness Steven C. McNeal filed on December 20, 2013 in Docket No. 13-124-U before the Arkansas Public Service Commission (APSC) for APSC approval to enter into and extension and amendment to EAI's Synthetic Railcare Lease. The amendment and extension of the lease agreement would extend the Current Synthetic Lease with RBS Asset Finance, Inc. for a new term of five years with a new quarterly fixed rental factor, including principal and interest.

Also attached is the Direct Testimony of APSC General Staff (Staff) witness Kim O. Davis, filed on February 20, 2014, recommending approval of the extension and amendment, and a Joint Motion from Staff and EAI requesting that the APSC decide the case on the written record. Finally, attached is APSC Order No. 2, issued on April 2, 2014, granting the Joint Motion and approving the Company's request to enter into the extension and amendment of the Synthetic Railcare Lease.


The equity investors and the lenders participating in the transaction require APSC and TRA approval of the proposed lease transaction described in the Application. EAI is requesting that the TRA issue its final order approving or concurring with the APSC Order as soon as possible so the EAI to enter into the proposed lease transaction and customers may begin to receive the benefit of the lower rental payment. If it is the TRA's position that it does not have approving authority over such financing, a declarative statement of such a position would also be appreciated to clarify the TRA's interpretation of Tennessee statutes.

Mr. James Allison  
Page 2  
April 18, 2014

Attached is a check in the amount of \$25.00 for EAI's filing fee.

If you have any questions or need additional information, please do not hesitate to call me at (501) 377-5876.

Sincerely,

A handwritten signature in cursive script that reads "Laura Landreaux". The signature is written in black ink and is positioned above the printed name and title.

Laura Landreaux  
Manager, Regulatory Affairs

Attachments

BEFORE THE  
ARKANSAS PUBLIC SERVICE COMMISSION

IN THE MATTER OF THE APPLICATION	)	
OF ENTERGY ARKANSAS, INC. FOR	)	
APPROVAL OF THE EXTENSION AND	)	DOCKET NO. 13-124-U
AMENDMENT OF SYNTHETIC RAILCAR	)	
LEASE	)	

APPLICATION

COMES NOW Entergy Arkansas, Inc. ("EAI" or the "Company"), and for its Application states:

1. This Application is filed pursuant to Ark. Code Ann. § 23-3-103, *et. seq.* and Rules 4 and 5 of the Rules of Practice and Procedure of the Arkansas Public Service Commission ("APSC" or the "Commission"). EAI is subject to the jurisdiction of the Commission and is also subject to the jurisdiction of the Federal Energy Regulatory Commission ("FERC") as an electric utility subsidiary of Entergy Corporation. The Tennessee Regulatory Authority ("TRA") also regulates the issuances of securities by EAI. EAI must, therefore, comply with applicable rules and regulations promulgated by the FERC and the TRA and secure certain approvals of the TRA in connection with the proposed transactions described herein, in addition to those approvals it must obtain from the APSC.

2. EAI is a corporation organized under the laws of the State of Arkansas and is a public utility as defined by Ark. Code Ann. § 23-1-101, *et. seq.* The Company's

principal office is located at the Metropolitan National Bank Tower, 425 West Capitol Avenue, Little Rock, Arkansas 72201. The Company's property consists of facilities for the generation, transmission, and distribution of electric power and energy to the public and of other property necessary to repair, maintain, and operate those facilities. These properties and facilities are located principally in the State of Arkansas. Certain distribution and transmission facilities for wholesale customers are located in the State of Missouri, and distribution lines for retail customers situated wholly on the west side of the main channel of the Mississippi River are located in a small portion of the State of Tennessee. The Company also owns a generation facility located in the State of Louisiana.

3. The subject matter of this Application is an extension of the term of and the amendment to certain provisions of EAI's current synthetic lease for aluminum railcars that are used to transport coal for use as fuel at the White Bluff Steam Electric Station and the Independence Steam Electric Station, which are co-owned by EAI and other providers of electric service. EAI's current synthetic lease was approved by the Commission in Docket No. 09-120-U (the "Current Synthetic Lease")<sup>1</sup> and, is proposed to be modified as set out herein, (the "Amended Synthetic Lease").

4. A copy of the Current Synthetic Lease is attached hereto as confidential EAI Application Exhibit A. A copy of a draft of the Amended Synthetic Lease is attached to the Direct Testimony of Steven C. McNeal as confidential EAI Exhibit SCM-1.

---

<sup>1</sup> APSC Docket No. 09-120-U, Order No. 3 (Dec. 28, 2009).

5. The Amended Synthetic Lease will be substantially similar to the Current Synthetic Lease previously approved by the Commission. Like the Current Synthetic Lease, the Amended Synthetic Lease has characteristics associated with operating and capital leases that will permit EAI to realize substantial cost savings for its customers. For financial accounting and reporting purposes, the Amended Synthetic Lease will be structured so as to constitute an operating lease under current financial accounting standards, and EAI will not be required to record an asset or a liability in connection with the Amended Synthetic Lease on EAI's balance sheet. However, for all other purposes, including tax purposes, EAI will be considered to be the owner of the railcars. Certain of the terms of the Amended Synthetic Lease may be amended or modified, from time to time, in order to comply with future accounting standards which may be applicable to it.

6. The essential economic and financial terms of the Amended Synthetic Lease have been agreed to by the parties involved in the transaction. Those terms are reflected in the Proposal Letter, executed on December 4, 2013, and attached to Mr. McNeal's testimony as confidential EAI Exhibit SCM-2.

7. The lessor under the Amended Synthetic Lease will continue to be RBS Asset Finance, Inc. The expiration date and the rental rate have been renegotiated, but the remaining material terms of the Amended Synthetic Lease are the same as the Current Synthetic Lease. The equipment leased will be approximately 2,071 aluminum rotary dump high side gondola railcars with a 4,480 cubic foot capacity (level), manufactured and delivered by Johnstown America Corporation in 1995, and 256 similar specification railcars delivered in 2002, all of which are subject to the Current

Synthetic Lease. The term of the Current Synthetic Lease expires on January 4, 2015. The term of the Amended Synthetic Lease will commence after the Commission issues an Order approving the Amended Synthetic Lease and will have a term of five years from the date of such commencement.

8. Rental payments under the Amended Synthetic Lease will be made quarterly and will be based on a lease amortization component, which is a fixed amount and corresponds to an amortization amount, and a lease rate component, which corresponds to interest on the unamortized amount. Extending the time over which the railcars will be leased permits EAI to realize lower interest costs. The terms of the Amended Synthetic Lease are explained in more detail in Mr. McNeal's direct testimony.

9. As described in Mr. McNeal's direct testimony, the projected economic value of the Amended Synthetic Lease to EAI and its customers is greater than that of the potential alternative of purchasing the railcars. Mr. McNeal compared the costs, beginning in 2014 and extending for the remaining 17-year useful life of the railcars, associated with purchasing the railcars or entering into the Amended Synthetic Lease. In all scenarios, the railcar costs are reflected in EAI's rates. This treatment of railcar costs was authorized for related railcar lease transactions by Order No. 2 and Order No. 4 in Docket No. 94-439-U, by Order No. 1 in Docket No. 02-244-U, and by Order No. 3 in Docket No. 09-120-U. The Amended Synthetic Lease is projected to produce net present value savings to EAI's retail customers compared to the option of purchasing the railcars. Mr. McNeal's direct testimony describes these savings.

10. Due to the similarities to the lease transactions to which the orders referred to in the preceding paragraph relate, EAI intends to account for the rental payments under the Amended Synthetic Lease as fuel expense as was authorized by those orders. Accordingly, the proposed transaction has no impact on EAI's balance sheet and, therefore, no financial statements are being filed herewith pursuant to Rule 5.03(b).

11. EAI requests that the following individuals be shown on the service list of this docket:

Steven K. Strickland  
Vice President, Regulatory Affairs  
Entergy Arkansas, Inc.  
P. O. Box 551  
Little Rock, Arkansas 72203  
Telephone: (501) 377-4457

Paul Benham  
Friday, Eldredge & Clark, LLP  
400 West Capitol Avenue, Suite 2000  
Little Rock, Arkansas 72201  
Telephone: (501) 370-1517

WHEREFORE, EAI prays that the Commission issue an order approving the Amended Synthetic Lease described herein; authorizing EAI to account for the associated costs as allowed by Order No. 2 and Order No. 4 in Docket No. 94-439-U, by Order No. 1 in Docket No. 02-244-U, and by Order No. 3 in Docket No. 09-120-U; and granting EAI all other necessary and appropriate relief.

Respectfully submitted,

ENTERGY ARKANSAS, INC.

By: /s/ Tucker Raney  
Tucker Raney  
Assistant General Counsel  
Entergy Services, Inc.  
P. O. Box 551  
Little Rock, AR 72203  
Telephone: (501) 377-4372

Paul Benham  
Friday, Eldredge & Clark, LLP  
400 West Capitol Avenue, Suite 2000  
Little Rock, Arkansas 72201  
Telephone: (501)370-1517

ATTORNEYS FOR ENTERGY  
ARKANSAS, INC.



### CERTIFICATE OF SERVICE

I, Tucker Raney, 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 20th day of December, 2013.

/s/ Tucker Raney  
Tucker Raney

BEFORE THE  
ARKANSAS PUBLIC SERVICE COMMISSION

IN THE MATTER OF THE APPLICATION	)	
OF ENTERGY ARKANSAS, INC. FOR	)	
APPROVAL OF THE EXTENSION AND	)	DOCKET NO. 13-124-U
AMENDMENT OF SYNTHETIC RAILCAR	)	
LEASE	)	

EAI APPLICATION EXHIBIT A

EAI RAILCAR CURRENT SYNTHETIC LEASE

THIS EXHIBIT CONTAINS CONFIDENTIAL INFORMATION PROVIDED  
PURSUANT TO THE INTERIM PROTECTIVE ORDER NO. 1 IN  
APSC DOCKET NO. 13-124-U DATED DECEMBER 19, 2013.

BEFORE THE  
ARKANSAS PUBLIC SERVICE COMMISSION

IN THE MATTER OF THE APPLICATION )  
OF ENTERGY ARKANSAS, INC. FOR )  
APPROVAL OF THE EXTENSION AND ) DOCKET NO. 13-124-U  
AMENDMENT OF SYNTHETIC RAILCAR )  
LEASE )

DIRECT TESTIMONY

OF

STEVEN C. MCNEAL

VICE PRESIDENT AND TREASURER, ENTERGY ARKANSAS, INC.

ENTERGY SERVICES, INC.

ON BEHALF OF

ENTERGY ARKANSAS, INC.

DECEMBER 20, 2013

1     **I.     INTRODUCTION AND BACKGROUND**

2     Q.     PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND  
3           OCCUPATION.

4     A.     My name is Steven C. McNeal. My business address is 639 Loyola  
5           Avenue, New Orleans, Louisiana, 70113. I am Vice President and  
6           Treasurer of Entergy Corporation, Entergy Arkansas, Inc. ("EAI" or the  
7           "Company"), Entergy Gulf States Louisiana, L.L.C. ("EGSL"), Entergy  
8           Louisiana, LLC, Entergy Mississippi, Inc., Entergy New Orleans, Inc.,  
9           Entergy Texas, Inc. ("ETI"), System Energy Resources, Inc., Entergy  
10          Services, Inc. ("ESI"),<sup>1</sup> and various other Entergy affiliates.

11

12    Q.     PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND,  
13           PROFESSIONAL QUALIFICATIONS, AND PROFESSIONAL  
14           EXPERIENCE.

15    A.     I received a Bachelor's of Science degree in Business and History from  
16           Trinity University in San Antonio in 1979. I received an M.B.A. from  
17           Tulane University in 1981.

18           I began my employment with Entergy Corporation in January 1982.  
19           Since that date, I have held positions in Financial Planning, Risk  
20           Management, Corporate Finance and Treasury. I was named Vice  
21           President and Treasurer in late 1998.

22           In my present position, I am responsible for executing financial  
23           strategies, arranging financings, performing financial analysis, managing  
24           rating agency relations, managing investment activities, overseeing bank

---

<sup>1</sup> ESI is an affiliate of EAI that provides technical and administrative service to all the Entergy Operating Companies.

1 relations, managing financial liabilities and overseeing risk management  
2 including insurable risks, commodities, and counterparty risks. My  
3 organization also actively supports rate filings.

4 I have oversight responsibility for the execution of financings for  
5 Entergy Corporation's utilities and have executed certain financings for  
6 other subsidiaries. As a part of this activity, I have regular dialogue with  
7 capital market participants, including lenders, investment bankers and  
8 institutional investors. I also maintain an active dialogue with the bond  
9 rating agencies on behalf of Entergy Corporation and its subsidiaries.

10

11 Q. ON WHOSE BEHALF ARE YOU TESTIFYING?

12 A. I am testifying on behalf of EAI.

13

14 Q. HAVE YOU EVER TESTIFIED IN A REGULATORY PROCEEDING?

15 A. Yes. I have submitted testimony to the Arkansas Public Service  
16 Commission ("APSC" or the "Commission") in connection with the  
17 application of EAI for authorization to enter into certain financing  
18 transactions in APSC Docket Nos. 95-594-U, 99-234-U, 01-221-U, 03-  
19 093-U, 03-139-U, and 06-096-U. I have filed testimony with the APSC in  
20 connection with the proposal for an independent electric transmission  
21 company (APSC Docket No. 00-383-U) and with EAI's Application for  
22 Approval of Synthetic Railcar Lease (APSC Docket Nos. 02-224-U and  
23 09-120-U). I have also filed testimony before the retail regulators of EAI's  
24 affiliates on a variety of financial issues. For example, I have filed  
25 testimony (i) with the APSC, Louisiana Public Service Commission  
26 ("LPSC"), Mississippi Public Service Commission, and the Council of the

1 City of New Orleans in connection with the proposal for an independent  
2 coordinator of transmission for the Entergy Operating Companies<sup>2</sup>  
3 transmission facilities, (ii) with the Public Utility Commission of Texas  
4 ("PUCT") and the LPSC supporting the jurisdictional separation plans of  
5 an affiliate, Entergy Gulf States, Inc. ("EGSI"), (iii) with the PUCT relating  
6 to EGSI's unbundled cost of service filing, 2004 and 2007 rate cases, and  
7 Texas securitization filing, and (iv) with the LPSC with respect to the ninth  
8 earnings review of the merger with EGSI and a storm cost recovery filing.  
9

10 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS DOCKET?

11 A. I will support EAI's Application in this docket for approval of and  
12 amendment to EAI's lease of aluminum railcars that are used to transport  
13 coal to the Company's White Bluff and Independence Steam Electric  
14 Stations. The original lease agreement ("Current Synthetic Lease") was  
15 approved by Order No. 3 in Docket No. 09-120-U. A copy of the  
16 proposed lease amendment ("Amended Synthetic Lease") is attached as  
17 confidential EAI Exhibit SCM-1.  
18

---


<sup>2</sup> The Entergy Operating Companies include EAI; Entergy Gulf States Louisiana, L.L.C.; Entergy Louisiana, LLC; Entergy Mississippi, Inc.; Entergy New Orleans, Inc.; and Entergy Texas, Inc.

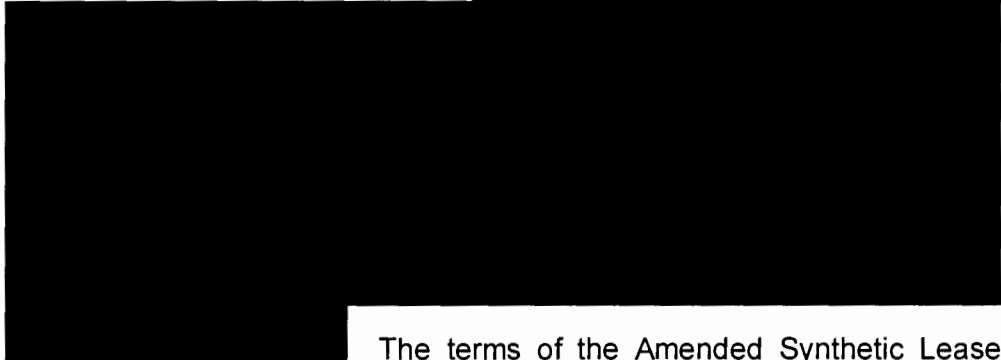
1     **II.     AMENDED SYNTHETIC LEASE**

2     Q.     PLEASE DESCRIBE THE EQUIPMENT COVERED BY CURRENT  
3            SYNTHETIC LEASE?

4     A.     The equipment leased will be approximately 2,071 aluminum rotary dump  
5            high side gondola railcars with a 4,480 cubic foot capacity (level),  
6            manufactured and delivered by Johnstown America Corporation in 1995,  
7            and 256 similar specification railcars delivered in 2002, all of which are  
8            currently being leased under the Current Synthetic Lease.

9  
10    Q.     PLEASE DESCRIBE THE AMENDED SYNTHETIC LEASE.

11    A.     The Amended Synthetic Lease will extend the Current Synthetic Lease  
12            with RBS Asset Finance, Inc. ("RBS") for a new term of five years (20  
13            quarters), with a new quarterly fixed rental factor, which includes principal  
14            and interest. This rental amount is subject to change until the lease  
15            amendment commencement date, 

16           

17  
18  
19  
20  
21           The terms of the Amended Synthetic Lease  
22           have been agreed to by EAI and RBS in the Proposal Letter, executed on  
23           December 4, 2013 and attached hereto as confidential EAI Exhibit SCM-  
24           2.

1 Q. WHY IS EAI PROPOSING TO EXTEND THE CURRENT SYNTHETIC  
2 LEASE?

3 A. The Current Synthetic Lease will terminate and need to be refinanced in a  
4 little over a year. We examined current market conditions and saw the  
5 opportunity to lower rent payments

6 [REDACTED]  
7 [REDACTED]  
8 [REDACTED]  
9 [REDACTED]  
10 [REDACTED]

11

12 Q. OTHER THAN THE TERMS DESCRIBED ABOVE, ARE THERE ANY  
13 MATERIAL TERMS IN THE AMENDED SYNTHETIC LEASE THAT  
14 DIFFER FROM THE CURRENT SYNTHETIC LEASE?

15 A. No.

16

17 Q. DID YOU EVALUATE ANY ALTERNATIVES?

18 A. Yes. We evaluated alternatives, such as purchasing the railcars in 2014  
19 or allowing the Current Synthetic Lease to expire in 2015 and purchasing  
20 the railcars at that time. Our evaluation indicated that refinancing the  
21 cars under the proposed RBS extension in 2014 provided net present  
22 value savings of

23 [REDACTED]

24 [REDACTED]

25



1 Q. HOW DOES EAI INTEND TO ACCOUNT FOR THE RENTAL  
2 PAYMENTS?

3 A. EAI intends to account for the rental payments under the Amended  
4 Synthetic Lease as fuel expense as was authorized by the Commission in  
5 Order No. 3 in Docket No. 09-120-U.  
6

7 Q. WHEN DOES EAI REQUEST AN ORDER APPROVING THE AMENDED  
8 SYNTHETIC LEASE?

9 A. EAI respectfully requests that the Commission issue an Order as  
10 expeditiously as practical in order to allow customers to receive the  
11 benefits of the lower rental payments.  
12

13 Q. DOES THIS CONCLUDE YOUR TESTIMONY AT THIS TIME?

14 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 20th day of December 2013.

/s/ Steven K. Strickland  
Steven K. Strickland

BEFORE THE  
ARKANSAS PUBLIC SERVICE COMMISSION

IN THE MATTER OF THE APPLICATION	)	
OF ENTERGY ARKANSAS, INC. FOR	)	
APPROVAL OF THE EXTENSION AND	)	DOCKET NO. 13-124-U
AMENDMENT OF SYNTHETIC RAILCAR	)	
LEASE	)	

EAI EXHIBIT SCM-1

EAI RAILCAR  
AMENDED SYNTHETIC LEASE

THIS EXHIBIT CONTAINS CONFIDENTIAL INFORMATION PROVIDED  
PURSUANT TO THE INTERIM PROTECTIVE ORDER NO. 1 IN  
APSC DOCKET NO. 13-124-U DATED DECEMBER 19, 2013.

BEFORE THE  
ARKANSAS PUBLIC SERVICE COMMISSION

IN THE MATTER OF THE APPLICATION	)	
OF ENTERGY ARKANSAS, INC. FOR	)	
APPROVAL OF THE EXTENSION AND	)	DOCKET NO. 13-124-U
AMENDMENT OF SYNTHETIC RAILCAR	)	
LEASE	)	

EAI EXHIBIT SCM-2

EAI RAILCAR PROPOSAL LETTER

THIS EXHIBIT CONTAINS CONFIDENTIAL INFORMATION PROVIDED  
PURSUANT TO THE INTERIM PROTECTIVE ORDER NO. 1 IN  
APSC DOCKET NO. 13-124-U DATED DECEMBER 19, 2013.

BEFORE THE  
ARKANSAS PUBLIC SERVICE COMMISSION

2014 FEB 19 AM 10:38

IN THE MATTER OF THE APPLICATION )  
OF ENTERGY ARKANSAS, INC. FOR )  
APPROVAL OF THE EXTENSION AND )  
AMMENDMENT OF SYNTHETIC RAILCAR )  
LEASE )

DOCKET NO. 13-124-U

PUBLIC  
DIRECT TESTIMONY

OF

KIM O. DAVIS  
DIRECTOR  
FINANCIAL ANALYSIS SECTION

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

FEBRUARY 19, 2014

1  
5

# 1 INTRODUCTION

3     A.     My name is Kim O. Davis and my business address is Arkansas Public Service  
4           Commission (APSC or Commission), 1000 Center Street, Little Rock, Arkansas  
5           72201.

8 A. I am employed by the APSC General Staff (Staff) as the Director of Financial  
9 Analysis, a role I assumed in December 2011. My team performs economic and  
10 financial analyses, including determining the appropriate relationship between  
11 debt and equity capital and calculating the cost of debt and equity as  
12 components for determining the overall required rate of return for jurisdictional  
13 utilities. My team evaluates proposed debt and equity issuances, mergers, and  
14 acquisitions pertaining to Arkansas, and monitors current economic trends and  
15 their effect on utility cost of capital, as well as reviewing and developing  
16 depreciation rates for jurisdictional utilities.

18 A. I have a combined total of more than 30 years of finance and accounting  
19 experience with approximately half of that time spent in the energy or regulatory  
20 field. I was employed by two international accounting firms for more than 5 years  
21 where I consulted with clients primarily in the oil and gas industry. I was  
22 employed for several years with a natural gas marketer post-open access. I was  
23 employed by Entergy Corporation for 2 years as a Marketing Analyst and in the

ENTERGY ARKANSAS, INC.  
DOCKET NO. 13-124-U  
PUBLIC DIRECT TESTIMONY OF KIM O. DAVIS

1 Load, Energy and Revenue Forecasting section. I was also employed for 11  
2 years by Acxiom Corporation, where I held positions in Finance & Accounting  
3 including Financial Analyst, Finance & Accounting Leader and Director of Pricing.  
4 I have been employed by Staff for approximately eight years as a Rate Analyst, a  
5 Public Utility Analyst, Manager of Cost Allocation and Rate Design and now as  
6 the Director of Financial Analysis.

7 My educational background includes a Bachelor of Science Degree and  
8 an M.B.A from Baylor University. I am licensed to practice as a Certified Public  
9 Accountant in Arkansas (inactive status). I have completed various courses  
10 including "Fundamentals of Oil and Gas Exploration and Production" and  
11 "Petroleum Land Management." I am a graduate of the National Association of  
12 Regulatory Utility Commissioners' (NARUC) Annual Regulatory Studies Program  
13 at Michigan State University. I am a member of the Society of Utility and  
14 Regulatory Financial Analysts.

15 I have testified before this Commission in numerous gas, water and  
16 electric cases concerning billing determinants, cost of service, energy efficiency,  
17 policy, ratemaking, rulemaking and various other tariff matters and I have  
18 assisted in the development of Staff's position in many more cases.

19 **PURPOSE OF TESTIMONY**

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

21 **A.** On December 20, 2013, Entergy Arkansas, Inc. (EAI or Company) filed its  
22 application (Application) seeking approval for the extension and amendment of  
23 its synthetic lease for aluminum railcars used to transport coal to the White Bluff

ENTERGY ARKANSAS, INC.  
DOCKET NO. 13-124-U  
PUBLIC DIRECT TESTIMONY OF KIM O. DAVIS

1 Steam Electric Station (White Bluff) and the Independence Steam Electric Station  
2 (Independence), which are co-owned by EAI and other providers of electric  
3 service. EAI filed its application pursuant to Ark. Code Ann. § 23-3-103, *et. Seq.*  
4 and Rules 4 and 5 of the Commission's *Rules of Practice and Procedure* (RPPs).  
5 On January 1, 2014, a new revised version of the RPPs became effective.  
6 Former RPP Rules 4 and 5 are now Rules 3 and 10, respectively.

7 **SUMMARY OF COMPANY REQUEST**

8 **Q. Please summarize EAI's request and the support it offers.**

9 A. The Application seeks approval for the extension of the term and the amendment  
10 of certain provisions of its current synthetic lease for aluminum railcars used to  
11 transport coal fuel for use at its White Bluff and Independence plants. EAI's  
12 current synthetic lease was approved by Commission Order No. 3 in Docket No.  
13 09-120-U (Current Synthetic Lease). According to the Company, the proposed  
14 modified synthetic lease (Amended Synthetic Lease) will be substantially similar  
15 to the Current Synthetic Lease previously approved by this Commission.  
16 According to the Company, "...the Amended Synthetic Lease has characteristics  
17 associated with operating and capital leases that will permit EAI to realize  
18 substantial cost savings for its customers."<sup>1</sup> The Company will continue to  
19 account for the associated costs as fuel expense and will recover such costs  
20 through the Energy Cost Recovery Rider.

21 In addition to the Application, EAI filed the Direct Testimony of Steven C.  
22 McNeal in support of its request. He provided the Amended Synthetic Lease as

---

<sup>1</sup> EAI Application, p. 3, paragraph 5.



ENTERGY ARKANSAS, INC.  
DOCKET NO. 13-124-U  
PUBLIC DIRECT TESTIMONY OF KIM O. DAVIS

1 EAI Exhibit SCM-1 and the EAI Railcar Proposal Letter (Letter) in EAI Exhibit  
2 SCM-2. EAI witness McNeal states that by amending and extending the lease,  
3 EAI will be able to lower rent payments and lock in attractive lease rates while  
4 minimizing other transaction costs.

5 **Q. What are the primary provisions of the Current Synthetic Lease that would**  
6 **be modified by the Amended Synthetic Lease?**

7 A. The term provision, currently set to expire on January 4, 2015, would be  
8 extended for five years commencing with the issuance of a Commission order in  
9 this docket. Additionally, the leasing rates inherent in the lease would be  
10 lowered.

11 **Q. Were any other material terms of the lease modified?**

12 A. No.

13 **Q. Did EAI examine any alternatives to that of amending and extending the**  
14 **lease?**

15 A. Yes. EAI examined purchasing the railcars in 2014 or allowing the Current  
16 Synthetic Lease to expire in 2015 and purchasing the cars at that time.

17 **Q. Does EAI anticipate benefits to ratepayers as the result of entering into the**  
18 **Amended Synthetic Lease?**

19 A. Yes. By extending the term of the lease, EAI will realize lower interest costs by  
20 lowering the existing lease rate [REDACTED].<sup>2</sup> According to EAI witness  
21 McNeal, the projected economic impact of the Amended Synthetic Lease to EAI  
22 and its customers is greater than that of the potential alternative of purchasing

---

<sup>2</sup> This rate is not locked in and could vary by the time the Amended Synthetic Lease is executed.

1 the railcars with net present value savings ranging from [REDACTED]  
2 [REDACTED].

3 **STAFF REVIEW**

4 **Q. Did you review the Company's Application, testimony, Amended Synthetic**  
5 **Lease and financial analysis?**

6 A. Yes.

7 **Q. Did you identify any issues or concerns during your review of the**  
8 **Company's request?**

9 A. Yes. The number of railcars noted in Annex A to Schedule No. 1 of the  
10 Amended Synthetic Lease (Annex A) [REDACTED] differed from the number of railcars  
11 noted in the Application, page 3, paragraph 7 (2,327) by [REDACTED] railcars in total.  
12 Through informal discovery, EAI explained that Annex A included [REDACTED] railcars that  
13 had been damaged beyond repair in a [REDACTED], accident. See Direct  
14 Exhibit KOD-1. EAI provided Staff a "casualty notice" letter sent on [REDACTED]  
15 [REDACTED], to RBS Asset Finance, Inc. (RBSAFI), the lessor, noting that EAI would  
16 pay a "Stipulated Loss Value" amount of [REDACTED] with the next lease payment  
17 due on [REDACTED] of the Current Lease, to pay-off  
18 any balances owed on the damaged railcars. *Id.* In the letter, EAI instructed  
19 RBSAFI to adjust equipment schedules accordingly to reflect full payment of the  
20 Stipulated Loss Value for the railcars shown on Attachment A to the casualty  
21 notice letter. EAI confirmed that RBSAFI is aware of the correct number of  
22 railcars and that Annex A will be corrected prior to finalizing the Amended  
23 Synthetic Lease. *Id.*

ENTERGY ARKANSAS, INC.  
DOCKET NO. 13-124-U  
PUBLIC DIRECT TESTIMONY OF KIM O. DAVIS

1 Further, the Application states on page 3, paragraph 5 that "Certain of the  
2 terms of the Amended Synthetic Lease may be amended or modified, from time  
3 to time, in order to comply with future accounting standards which may be  
4 applicable to it." To the extent that approval of the Application as currently  
5 written could be interpreted as a pre-approval of possible future changes, I  
6 recommend the Commission specifically order that any future changes to the  
7 final, executed agreement require prior Commission approval.

8 **Q. Did you have any areas of concern regarding the Company's request to**  
9 **extend the term of the agreement to five years from the commencement**  
10 **date?**

11 **A.** I posed several questions to EAI related to a hypothetical scenario. The scenario  
12 posed was if in the near future, should a decision be made not to upgrade the  
13 White Bluff Steam plant to meet environmental regulations, how would that  
14 impact the need for the railcars and the associated Amended Synthetic Lease.  
15 In its email response to my questions (see Direct Exhibit KOD-2), EAI noted that  
16 the Amended Synthetic Lease contains an [REDACTED]

17 [REDACTED]  
18 [REDACTED] Under this provision, EAI could purchase between [REDACTED]  
19 [REDACTED] of the railcar fleet thereby removing the railcars from the lease. EAI  
20 would then be free to sell the excess railcars on the open market. EAI could also  
21 approach the lessor for permission under the lease to sublease any unneeded  
22 cars to a third party. These provisions seem to provide EAI with flexibility to  
23 insulate ratepayers from adverse effects should an early shut down of White Bluff

ENTERGY ARKANSAS, INC.  
DOCKET NO. 13-124-U  
PUBLIC DIRECT TESTIMONY OF KIM O. DAVIS

1           be necessary.

2   **Q.   Please summarize your recommendations.**

3   A.   I recommend that the Commission:

4           1.    Approve the Company's request to enter in the Amended Synthetic Lease  
5               with RBSAFI.

6           2.    Require EAI to file a copy of the final, executed agreement with the  
7               Commission as soon as practical after approval and subsequent  
8               execution.

9           3.    Order that any future changes to the final, executed agreement require  
10           Commission approval to the same extent as required for the current  
11           proposal.

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

13   A.   Yes.

**CERTIFICATE OF SERVICE**

I certify that a copy of the foregoing has been delivered to all parties of record by forwarding the same by electronic service, this 19th day of February, 2014.

/s/ John T. Elkins

John T. Elkins

BEFORE THE  
ARKANSAS PUBLIC SERVICE COMMISSION

IN THE MATTER OF THE APPLICATION	)	
OF ENTERGY ARKANSAS, INC. FOR	)	
APPROVAL OF THE EXTENSION AND	)	DOCKET NO. 13-124-U
AMENDMENT OF SYNTHETIC RAILCAR	)	
LEASE		

JOINT MOTION

Comes now Entergy Arkansas, Inc. ("EAI"), the General Staff of the Arkansas Public Service Commission ("Staff"), and the Attorney General of the State of Arkansas, Consumer Utilities Rate Advocacy Division ("AG"), and for their Joint Motion state:

1. On December 20, 2013, EAI initiated this docket seeking approval for the extension and amendment of its current synthetic railcar lease which was approved by the Arkansas Public Service Commission ("Commission") on December 28, 2009 in Docket No. 09-120-U (as so extended and amended, the "Amended Synthetic Lease").

2. EAI filed with its Application the direct testimony and exhibit of Steven C. McNeil supporting the extension and amendment of the Amended Synthetic Lease.

3. On January 24, 2014, the AG served notice of its intent to be a party in this Docket.

4. On February 19, 2014, Kim O. Davis filed the direct testimony and exhibit on behalf of Staff recommending that the Commission approve EAI's

request to enter into the Amended Synthetic Lease, with the conditions that EAI file a copy of the final, executed Amended Synthetic Lease with the Commission as soon as practical after approval and subsequent execution, and that any future changes to the final, executed Amended Synthetic Lease require Commission approval.

5. On February 20, 2014, the AG served notice that it did not intend to file testimony in this docket because, in light of Staff's testimony, it has no objection to the relief requested by EAI in this docket.

6. EAI hereby agrees to the conditions expressed by Staff witness Davis.

7. The parties to this Joint Motion request the Commission to decide the case on the written record.

8. EAI respectfully requests an Order as expeditiously as practical in order to allow customers to receive the benefits of the lower rental payments.

WHEREFORE, the parties respectfully request the Commission approve the Joint Motion, decide the case on the written record, approve the Amended Synthetic Lease as proposed in EAI's Application, and grant all other appropriate relief.

Respectfully submitted,

ENTERGY ARKANSAS, INC.

By: /s/ Tucker Raney  
Tucker Raney  
Assistant General Counsel  
Entergy Services, Inc.  
P. O. Box 551  
Little Rock, AR 72203  
Telephone: (501) 377-4372  
traney@entergy.com

Paul Benham  
Friday, Eldredge & Clark, LLP  
400 West Capitol Avenue, Suite 2000  
Little Rock, Arkansas 72201  
Telephone: (501)370-1517  
pbenham@fridayfirm.com

ATTORNEYS FOR ENTERGY  
ARKANSAS, INC.

GENERAL STAFF OF THE ARKANSAS  
PUBLIC SERVICE COMMISSION

By: /s/ John T. Elkins  
Staff Attorney  
jelkins@psc.state.ar.us  
Valerie F. Boyce  
Staff General Counsel  
valerie\_boyce@psc.state.ar.us  
1000 Center Street  
P.O. Box 400  
Little Rock, AR 72203-0400  
Telephone: (501) 682-2047



ARKANSAS ATTORNEY GENERAL,  
CONSUMER UTILITIES RATE  
ADVOCACY DIVISION

By: /s/ M. Shawn McMurray  
Senior Assistant Attorney General  
323 Center Street, Suite 200  
Little Rock, AR 72201  
Telephone: (501) 682-1053  
[shawn.mcmurray@arkansasag.gov](mailto:shawn.mcmurray@arkansasag.gov)

CERTIFICATE OF SERVICE

I, Tucker Raney, 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 27th day of February 2014.

/s/ Tucker Raney  
Tucker Raney

**ARKANSAS PUBLIC SERVICE COMMISSION**

IN THE MATTER OF THE APPLICATION OF	)	
ENTERGY ARKANSAS, INC. FOR APPROVAL	)	DOCKET NO. 13-124-U
OF THE EXTENSION AND AMENDMENT OF	)	ORDER NO. 2
SYNTHETIC RAILCAR LEASE	)	

**ORDER**

On December 20, 2013, Entergy Arkansas, Inc. (EAI or the Company) filed its Application (Application) seeking approval to extend its synthetic lease for aluminum railcars. The railcars are used to transport coal to the White Bluff Steam Electric Station (White Bluff) and the Independence Steam Electric Station (Independence), which are co-owned by EAI and other providers of electric service. EAI filed its Application pursuant to Ark. Code Ann. § 23-3-103 *et seq.* and Rules 4 and 5 of the Commission's *Rules of Practice and Procedure* (RPPs).<sup>1</sup> In support of its Application, EAI filed the Direct Testimony and Exhibits of Steven C. McNeal, including certain confidential information filed under seal pursuant to Protective Order No. 1 in this Docket.

On January 24, 2014, the Attorney General of Arkansas (AG) filed written notice of his intent to be an active party in this Docket. On February 3, 2014, the General Staff (Staff) of the Commission submitted on behalf of EAI, the AG, and Staff a *Motion to Adopt Procedural Schedule*. On February 19, 2014, Staff filed the Public and Confidential Direct Testimony and Exhibits of Director of Financial Analysis Kim O. Davis. On February 20, 2014, the AG filed a letter stating that the AG no longer planned to file Direct Testimony in this Docket "because, in light of testimony filed by Staff on

---

<sup>1</sup> On January 1, 2014, a new revised version of the RPPs became effective. Former RPP Rules 4 and 5 are now Rules 3 and 10, respectively.

February 19, 2014, especially regarding the provisions that apply in case a decision is made not to upgrade the White Bluff plant to meet environmental regulations, the Attorney General has no objection to the relief requested by EAI in this docket." On February 27, 2014, EAI filed a Joint Motion on behalf of itself, Staff, and the AG asking that the Commission decide the case on the written record and approve the Amended Synthetic Lease as proposed in EAI's Application.

Mr. McNeal testifies that EAI's current railcar lease agreement (Current Synthetic Lease) was approved by Order No. 3 in Docket No. 09-120-U. A copy is attached to his testimony as confidential EAI Exhibit SCM-1. McNeal Direct at 4. He notes EAI currently leases 2,071 aluminum rotary dump high side gondola railcars manufactured and delivered by Johnstown America Corporation in 1995, and 256 similar specification railcars delivered in 2002. All of these railcars are leased pursuant to the Current Synthetic Lease. *Id.* at 5.

According to Mr. McNeal, the proposed amended synthetic lease (Amended Synthetic Lease) will be substantially the same as the Current Synthetic Lease previously approved by this Commission. EAI's Application seeks to extend the term of the lease with RBS Asset Finance, Inc. (RBSAFI) for five years (20 quarters), with a new quarterly fixed rental factor that includes principal and interest. *Id.* The precise rate that EAI will pay under the amended lease is subject to change until the new agreement formally commences.

Mr. McNeal states that the terms of the Amended Synthetic Lease have been agreed to by EAI and RBSAFI in the Proposal Letter executed on December 4, 2013, and attached to his testimony as confidential EAI Exhibit SCM-2. According to the

Application, “. . . the Amended Synthetic Lease has characteristics associated with operating and capital leases that will permit EAI to realize substantial cost savings for its customers.” Application at 3, ¶ 5.

In support of EAI's request, Mr. McNeal provided the Amended Synthetic Lease as EAI Exhibit SCM-1 and the EAI Railcar Proposal Letter (Letter) as EAI Exhibit SCM-2. Mr. McNeal states that, by amending and extending the lease, EAI will be able to lower its payments and lock in attractive lease rates while minimizing transaction costs. McNeal Direct at 5-6. He adds that the Amended Synthetic Lease primarily extends the term of the existing lease, which is currently set to expire on January 4, 2015, for a new period of five years commencing upon approval and execution of the amended lease. *Id.* at 6.

Mr. McNeal states that other than the new five-year lease term, and the rental factor to be set at the commencement of the lease term, there are no material terms in the Amended Synthetic Lease that differ from the Current Synthetic Lease. *Id.* He notes that EAI did examine alternatives, including purchasing rather than leasing railcars in 2014, or allowing the Current Synthetic Lease to expire in 2015 and purchasing railcars at that time. According to Mr. McNeal, the Amended Synthetic Lease has a greater economic benefit for EAI and its customers than purchasing the railcars in either 2014 or 2015. *Id.*

The Company will continue to account for the costs associated with the leased railcars as fuel expense and will recover such costs through the Energy Cost Recovery Rider. *Id.* Mr. McNeal states that EAI intends to account for the rental payments under the Amended Synthetic Lease as fuel expensed, as was authorized by the Commission in

Order No. 3 in Docket No. 09-120-U. He requests that the Commission approve the Application to allow customers to receive the benefits of the projected lower rental payments. *Id.* at 7.

Mr. Davis, for Staff, confirms Mr. McNeal's description of the proposed transaction and agrees that the lease term would be five years commencing upon approval and execution. Davis Direct at 5. He states that no other material terms of the lease were modified and that EAI examined alternatives to amending and extending the lease. He agrees with Mr. McNeal that, by extending the term of the lease, EAI will realize lower interest costs, although the final lease rate is not locked in until the Amended Synthetic Lease is executed. *Id.* He acknowledges Mr. McNeal's testimony that, based on net present value savings, the economic benefit of the Amended Synthetic Lease to EAI and its customers is greater than that of the potential alternative of purchasing the railcars. *Id.* at 5-6.

Mr. Davis testifies that in his review of the Company's Application, the testimony, the Amended Synthetic Lease, and EAI's financial analysis he identified several concerns. First, he found that the number of railcars noted in Annex A to Schedule No. 1 of the Amended Synthetic Lease (Annex A) differed from the number of railcars noted in the Application. Through informal discovery, he states, EAI explained that Annex A included a number of cars that had been damaged beyond repair in an accident. He adds that EAI provided Staff a "casualty notice" letter sent to RBS Asset Finance, Inc. (RBSAFI), the lessor, noting that EAI would pay a "Stipulated Loss Value" amount with the next lease payment of the Current lease, to pay off any balances owed on the damaged railcars. *Id.* at 6. Mr. Davis states that in the letter, EAI instructed RBSAFI to

adjust equipment schedules accordingly to reflect full payment of the Stipulated Loss Value for the railcars shown on Attachment A to the casualty notice letter. He states that EAI confirmed that RBSAFI is aware of the correct number of railcars and that Annex A will be corrected prior to finalizing the Amended Synthetic Lease. *Id*

Second, Mr. Davis testifies that the Application states on page 3, paragraph 5 that "[c]ertain of the terms of the Amended Synthetic Lease may be amended or modified, from time to time, in order to comply with future accounting standards which may be applicable to it." To the extent that approval of the Application as currently written could be interpreted as a pre-approval of possible future changes, Mr. Davis recommends that the Commission specifically order that any future changes to the final, executed agreement require prior Commission approval. *Id.* at 7.

Third, Mr. Davis states that out of concern over the Company's request to extend the term of the agreement to five years from the commencement date, he posed several questions to EAI related to a hypothetical scenario. Mr. Davis asked EAI how the need for the railcars and the lease would be affected if EAI made a decision not to upgrade the White Bluff plant to meet environmental regulations. Mr. Davis recites that in its response to his questions (See Direct Exh. KOD-2), EAI noted that the Amended Synthetic Lease contains a provision whereby, in such a situation, EAI could purchase a portion of the railcar fleet thereby removing the railcars from the lease. EAI would then be free to sell the excess railcars on the open market. He states that EAI could also approach the lessor for permission to sublease any unneeded cars to a third party. *Id.* at 7. In Mr. Davis's opinion, these provisions seem to provide EAI with flexibility to

insulate ratepayers from adverse effects should an early shut-down of White Bluff be necessary. *Id.* at 7-8.

In conclusion, Mr. Davis recommends that the Commission: 1) approve the Company's request to enter the Amended Synthetic Lease with RBSAFI; 2) require EAI to file a copy of the final, executed agreement with the Commission as soon as practical after approval and subsequent execution; and 3) order that any future changes to the final, executed agreement require prior Commission approval to the same extent as required for the current proposal. *Id.* at 8.

#### Commission Ruling

Upon review of EAI's Application, the testimony and exhibits of EAI and Staff witnesses, the recommendations of Staff and the conditions suggested by Staff witness Davis, the Commission, for good cause shown, approves the Joint Motion and approves EAI's Application for approval of the Amended Synthetic Lease. As recommended by Staff, the Commission thus:

- 1) approves the Company's request to enter in the Amended Synthetic Lease with RBSAFI;
- 2) directs EAI to file a copy of the final, executed agreement with the Commission as soon as practical after approval and subsequent execution; and
- 3) orders that any future changes to the final, executed agreement be submitted for prior Commission approval to the same extent as required for the current proposal.



BY ORDER OF THE COMMISSION,

This 2nd day of April, 2014.

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.

Colette D. Honorable, Chairman

Olan W. Reeves, Commissioner

Elana C. Wills, Commissioner

  
Acting Secretary of the Commission