Entergy

Entergy Arkansas, Inc.
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Little Rock, AR 72203
Tel 501 377 4457
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Steven K. Strickland
Director
Regulatory Affairs

January 16, 2001

Mr. K. David Waddell
Executive Secretary
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243-0505

Re: Tennessee Regulatory Authority Docket No. 99-00719
Entergy Arkansas, Inc. Application for Authority to enter into certain financing transactions during the years 2000 through 2001

Dear Mr. Waddell:

In October, 1999, Entergy Arkansas, Inc. (EAI) received a letter from the Tennessee Regulatory Authority (TRA) Staff dated October 19, 1999, stating the following:

> "Based on Tennessee Attorney General Opinion No. 99-119, the Authority staff finds that because EAI is an electric utility subsidiary of Entergy Corporation, a registered holding company, with multistate operations or certificates of authority, approval of EAI's proposed financing transactions is not required."

The purpose of this letter is to provide follow-up documentation filed before the Arkansas Public Service Commission (APSC) to update the record in this Docket. Attached are the original and 13 copies of the following documents:

- Supplemental Testimony of EAI witness Steven C. McNeal filed with the APSC on November 19, 1999
- Second Supplemental Testimony of EAI witness Steven C. McNeal filed with the APSC on January 19, 2000
- Direct Testimony of APSC Staff witness Rob Brunner filed with the APSC on January 21, 2000
- APSC Order No. 1 in APSC Docket No. 99-234-U issued January 26, 2000, approving EAI Application for financing
- EAI's compliance report filed with APSC on April 4, 2000

Due in large part to the extraordinary costs associated with the ice storms which occurred throughout Arkansas and surrounding areas in the month of December, 2000, EAI deems it prudent to issue a series of First Mortgage Bonds. EAI recognizes and appreciates the TRA Staff's declination of jurisdiction in the letter of October 19, 1999. The bond underwriters, however, require that formal action be taken by the TRA in light of certain ambiguities in Tennessee statutes. EAI therefore is requesting that the TRA approve the sale of these First Mortgage Bonds or issue an approving order concurring with the APSC Order No. 1 in APSC Docket No. 99-234-U (TRA Docket No. 99-00719) which will allow EAI authority by a TRA approving order to issue the 2001 First Mortgage Bonds pursuant to TENN. CODE ANN. § 65-4-109. If it is the TRA's position that it does not have approving authority over such financings, a declarative statement of such a position would also be appreciated to clarify the TRA's interpretation of Tennessee statutes.

If you have any questions or need additional information, please do not hesitate to call me at (501) 377-4457 or Mr. Will Morgan at (501) 377-5489.

Sincerely,

Steven K. Strickland, Director
Regulatory Affairs - Arkansas

SKS/tj
Attachments

EAI WITNESS STEVEN C. MCNEAL'S

SUPPLEMENTAL TESTIMONY

FILED NOVEMBER 19, 1999

AND SECOND SUPPLEMENTAL TESTIMONY

FILED JANUARY 18, 2000

WITH THE

ARKANSAS PUBLIC SERVICE COMMISSION

IN APSC DOCKET NO. 99-234-U

BEFORE THE

ARKANSAS PUBLIC SERVICE COMMISSION

IN THE MATTER OF THE APPLICATION	)	
OF ENTERGY ARKANSAS, INC.	)	
FOR AUTHORIZATION TO ENTER INTO	)	DOCKET NO. 99-234-U
CERTAIN FINANCING TRANSACTIONS	)	
DURING THE YEARS 2000 THROUGH 2001	)	

SUPPLEMENTAL TESTIMONY

OF

STEVEN C. MCNEAL

VICE PRESIDENT AND TREASURER, ENTERGY ARKANSAS, INC.

ENTERGY SERVICES, INC.

ON BEHALF OF

ENTERGY ARKANSAS, INC.

NOVEMBER 19, 1999

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

A. Steven C. McNeal, 639 Loyola Avenue, New Orleans, Louisiana, 70113. I am Vice President and Treasurer of Entergy Corporation and many of its subsidiaries, including Entergy Arkansas, Inc. ("EAI" or the "Company").

Q. ARE YOU THE SAME STEVEN McNEAL WHO PROVIDED DIRECT TESTIMONY IN THIS DOCKET ON AUGUST 30, 1999?

A. Yes I am.

Q. ON WHOSE BEHALF ARE YOU PROVIDING THIS SUPPLEMENTAL TESTIMONY?

A. I am providing Supplemental Testimony on behalf of EAI.

Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL TESTIMONY?

A. EAI understands that the Arkansas Public Service Commission General Staff ("Staff") has some concern regarding the relationship, if any, between the financing authorization sought by EAI in this Docket and the transition to retail open access for generation service in Arkansas. The purpose of my Supplemental Testimony is to address this concern.

Q. IS THE FINANCING AUTHORIZATION SOUGHT BY EAI IN THIS DOCKET PART OF ITS PLAN FOR ITS TRANSITION TO COMPETITION?

A. No. The purpose for the authorization EAI is seeking is to provide it the financial flexibility to continue to provide service in a cost-effective manner prior to the implementation of competition.

Q. IS THE COMPANY SEEKING AUTHORIZATION IN THIS PROCEEDING FOR ANY FUNCTIONAL UNBUNDLING OR CORPORATE ORGANIZATION OR REORGANIZATION RELATED TO THE TRANSITION TO COMPETITION?

A. No. The Company is only seeking authorization for EAI to issue certain financial instruments that will allow it to maintain the financial flexibility to prudently meet its own capital needs. The authorization is not intended to affect in any way whatever authority the Arkansas Public Service Commission ("APSC" or the "Commission") may have over any unbundling or reorganization EAI may propose or be required to implement due to the advent of retail open access.

Q. IF THE AUTHORIZATION THE COMPANY IS SEEKING IS GRANTED, IS THE COMPANY LIKELY TO INCUR FINANCING COSTS TO REFINANCE OBLIGATIONS THAT WILL BE REFINANCED AGAIN AS

EAI IS UNBUNDLED DURING OR AFTER THE IMPLEMENTATION OF COMPETITION?

A. EAI's current financing authority expires December 31, 1999. EAI needs the ability to issue First Mortgage Bonds or Debentures in the ordinary course of its business. To the extent there are financing costs incurred through such financings, EAI cannot now predict whether such debt would be refinanced through securitization or any other process associated with unbundling. However, EAI is aware of the uncertainties inherent with the pending transition and intends to try to structure any issuances such that they would not be expensive impediments to the implementation of retail open access. EAI is also aware of the need to preserve the benefits of securitization should it elect to securitize any stranded costs it may have.

Q. DOES THIS CONCLUDE YOUR SUPPLEMENTAL TESTIMONY?

A. Yes.

CERTIFICATE OF SERVICE

The undersigned hereby certifies that a copy of the foregoing has been served upon all parties of record this 19 day of November 1999.

Steve Strickland / WRM
Steven K. Strickland

BEFORE THE

ARKANSAS PUBLIC SERVICE COMMISSION

IN THE MATTER OF THE APPLICATION	)	
OF ENTERGY ARKANSAS, INC.	)	
FOR AUTHORIZATION TO ENTER INTO	)	DOCKET NO. 99-234-U
CERTAIN FINANCING TRANSACTIONS	)	
DURING THE YEARS 2000 THROUGH 2001	)	

SECOND SUPPLEMENTAL TESTIMONY

OF

STEVEN C. MCNEAL

VICE PRESIDENT AND TREASURER, ENTERGY ARKANSAS, INC.

ENTERGY SERVICES, INC.

ON BEHALF OF

ENTERGY ARKANSAS, INC.

JANUARY 18, 2000

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

A. My name is Steven C. McNeal. My business address is 639 Loyola Avenue, New Orleans, Louisiana, 70113. I am Vice President and Treasurer of Entergy Corporation and many of its subsidiaries, including Entergy Arkansas, Inc. ("EAI" or the "Company").

Q. ARE YOU THE SAME STEVEN McNEAL WHO PROVIDED DIRECT TESTIMONY IN THIS DOCKET ON AUGUST 30, 1999, AND SUPPLEMENTAL TESTIMONY ON NOVEMBER 19, 1999?

A. Yes, I am.

Q. ON WHOSE BEHALF ARE YOU PROVIDING THIS SECOND SUPPLEMENTAL TESTIMONY?

A. I am providing additional supplemental testimony on behalf of EAI.

Q. WHAT IS THE PURPOSE OF YOUR SECOND SUPPLEMENTAL TESTIMONY?

A. EAI has discussed its Application for financing authorization with the Arkansas Public Service Commission General Staff ("Staff") in the context of the relationship between the financing authorization sought by EAI in this Docket and the transition to retail open access in Arkansas. The purpose of this supplemental testimony is to address this issue.

Q. WHY DOES EAI NEED TO ISSUE DEBT?

A. EAI may need to issue securities over the period January 1, 2000 through December 31, 2001 for any of the following four reasons:

- Reissue maturing debt;
- Economical refundings;
- Opportunities to restructure existing debt to provide more flexibility; and
- Funding capital expenditures.

Q. PLEASE EXPLAIN THE IMPACTS OF THE TRANSITION TO RETAIL OPEN ACCESS AND UNBUNDLING ON YOUR DEBT PORTFOLIO.

A. There is much uncertainty surrounding the transition to retail open access and the requirements of corporate unbundling. It is not clear how EAI may be unbundled from a financial perspective. EAI is unsure as to whether it will have to replace some or all of its outstanding securities, or when that may need to occur. For these reasons, among others, EAI has been trying, over the past few years, to increase the flexibility of the debt in its portfolio.

Q. CAN YOU DESCRIBE THE FLEXIBILITY THAT EAI WILL NEED IN ITS DEBT AS WE GO THROUGH THE TRANSITION TO RETAIL OPEN ACCESS AND UNBUNDLING?

A. Yes. EAI will likely need the flexibility offered by securities with different structures than those that have traditionally been in its debt portfolio. There are at least four structures of debt securities that EAI believes are potential candidates to replace existing senior secured debt and provide needed flexibility prior to unbundling. They are:

- Unsecured debt securities;
- Secured debt securities that by their terms can move with assets;
- Short-term secured debt ; and
- Secured debt with periodic coupon resets (floating rate debt) and low cost callability.

Q. GIVEN CURRENT MARKET CONDITIONS AND WHAT YOU CURRENTLY KNOW ABOUT THE TRANSITION TO RETAIL OPEN ACCESS, WHICH OF THE PREVIOUSLY MENTIONED SECURITIES DO YOU ANTICIPATE ISSUING DURING THE PERIOD JANUARY 1, 2000 THROUGH DECEMBER 31, 2001?

A. Given current economic conditions and indications from the market, unsecured debt and secured debt with covenants allowing the debt to move with assets are likely to be prohibitively expensive compared to other options. Short-term secured debt is somewhat less expensive and provides the necessary flexibility, but introduces "reissuance risk" on a more frequent basis (as the debt matures more frequently). Secured floating rate debt with reasonable callability may represent a good option to provide the needed flexibility at the most reasonable price.

Q. PLEASE ELABORATE ON THE RELATIVE MERITS OF THE FOUR STRUCTURES PREVIOUSLY MENTIONED.

A. At this time EAI feels that unsecured debt is not the best option because of its expense as compared to secured debt as well as the limitations on the issuance of unsecured debt that are in EAI's Amended and Restated Articles of Incorporation.

Secured debt with the ability to move with assets is also not a very viable option at this time. This type of debt would be very difficult to structure because the holder would want to know where his claim would end up after unbundling and that answer is not yet clear. For this reason EAI would either be unable to sell this type of secured debt, or it would be prohibitively expensive. As the process and framework for the transition to retail open access and unbundling become clearer, this type of structured secured debt may become a more viable option.

Short-term secured debt has the advantage of being at the short end of an upward sloping yield curve (6 month Treasury Bills were yielding 5.719 percent and 30 year Treasury Bonds were yielding 6.622 percent on January 5, 2000), but has the disadvantage of more frequent reissuance risk and expenses. However, as the timing surrounding unbundling and financing the resultant entities becomes clearer, this option may become the most attractive. To the extent it would be prudent for EAI to accept some level of reissuance risk, it may be the most desirable alternative today.

The fourth option is secured debt with periodic coupon resets ("floating-rate debt"). Floating-rate debt offers the lower coupon benefit of short-term secured debt, while also offering the flexibility of frequent callability and longer final maturity. Floating-rate debt has the lower yield that a short-term security affords, it does not adversely impact the unsecured debt restrictions of the company, (under its Amended and Restated Articles of Incorporation) and it does not have the reissuance expenses that are associated with short-term secured debt.

EAI's present view is that short-term, floating-rate secured debt or short-term secured debt can best provide the necessary flexibility for the upcoming period of uncertainty.

Q. DOES THIS CONCLUDE YOUR SUPPLEMENTAL TESTIMONY?

A. Yes.

CERTIFICATE OF SERVICE

The undersigned hereby certifies that a copy of the foregoing has been served upon all parties of record this 18th day of January 2000.

Steven K. Strickland

APSC STAFF WITNESS ROB BRUNNER'S

TESTIMONY

FILED JANUARY 21, 2000

WITH THE

ARKANSAS PUBLIC SERVICE COMMISSION

IN APSC DOCKET NO. 99-234-U

BEFORE THE
ARKANSAS PUBLIC SERVICE COMMISSION

IN THE MATTER OF THE APPLICATION OF ENTERGY ARKANSAS, INC. FOR AUTHORIZATION TO ENTER INTO CERTAIN FINANCING TRANSACTIONS DURING THE YEARS 2000 THROUGH 2001	)))))	DOCKET NO. 99-234-U

PREPARED TESTIMONY

OF

ROB BRUNNER
FINANCIAL ANALYST

ON BEHALF OF THE
ARKANSAS PUBLIC SERVICE COMMISSION GENERAL STAFF

JANUARY 21, 2000

INTRODUCTION

Q. Please state your name and business address.

A. My name is Rob Brunner. My business address is the Arkansas Public Service Commission (Commission), 1000 Center Street, Little Rock, Arkansas 72201.

Q. What is your present position with the Arkansas Public Service Commission General Staff (Staff)?

A. I am employed by Staff as a Financial Analyst in the Financial Analysis Section. In that capacity, I perform economic and financial analysis, including determining the appropriate relative relationship between debt and equity capital and calculating the cost of debt, preferred stock, and common equity as components for determining the overall required rate of return for jurisdictional utilities. Additionally, I evaluate proposed debt and equity issuances, mergers, and acquisitions pertaining to the Arkansas jurisdiction, and monitor current economic and market trends and their impact on the cost of capital.

QUALIFICATIONS

Q. Please describe your background and qualifications.

A. I graduated from the University of Arkansas at Fayetteville with a Bachelor of Science degree in Business Administration with a major in Finance and a Master of Business Administration with an emphasis in Finance. My first two years in investment banking were spent as a trader with a regional money-center bank in the South. From 1972 to 1977, I was employed by Paine Webber in New York as a Vice President and trader of U.S. Government and Federal Agency Securities. From 1977 to 1989, I was employed by T.J. Raney & Sons, Inc. where I served as Senior Vice President in charge of trading for fixed-income securities. From 1989 to 1991, I was employed by Staff as a financial analyst and supervisor. From 1991 to 1998, I was employed by Stephens, Inc. where I managed the firm's proprietary trading account for mortgage-backed pass-through securities. In September 1998, I returned to Staff in my present position. I have been registered with the National Association of Securities Dealers, New Stock Exchange, National Futures Association, and Municipal Securities Rulemaking Board, holding Series 3, 4, 5, 7, 24, 52, and 63 licenses. I have been involved in the analysis and trading of all types of debt securities, equities, options, and commodities for over twenty-five years. My duties have included the research, analysis, and implementation of countless investment transactions including financial arbitrage, where multiple securities are traded simultaneously to take advantage of differentials between securities, maturities, markets, or any combination thereof. This involves constant application of fundamental analysis and interpretation of macro-economic data and its effect on the capital markets, the yield curve, and inter-market relationships. I have also performed micro-economic and financial analysis of various industries and companies, including public utilities. In addition, I have engaged in extensive technical analysis of the markets and specific securities. I have attended numerous seminars on markets and risk, and advised financial institutions on managing interest rate risk, credit risk, and yield-enhancement opportunities.

While employed by Staff, I have attended the two-week NARUC Annual Regulatory Studies Program at Michigan State University and Financial Forums sponsored by the Society of Utility and Regulatory Financial Analysts (SURFA), of which I am a member. I have been awarded the professional designation Certified Rate of Return Analyst (CRRA) by SURFA, a designation awarded based upon experience and successful completion of a written examination.

PURPOSE

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

A. The purpose of my testimony is to address the Application of Entergy Arkansas, Inc. (EAI or the Company) filed in this docket on October 20, 1999 and the Direct Testimony, Supplemental Testimony and Second Supplemental Testimony of Steven C. McNeal. The Company is requesting authorization to issue and sell: 1) one or more series of first mortgage bonds (bonds) and one or more series of debentures which in a combined amount would not exceed the sum of $660,000,000; 2) one or more series of (a) $100 Par Value, $25 Par Value, or Class A Preferred Stock (collectively, preferred stock), or (b) preferred securities through a Special Purpose Subsidiary, which in a combined amount would not exceed $185,000,000; 3) an aggregate amount of common stock, not to exceed $100,000,000; 4) one or more series of tax-exempt bonds in an aggregate principal amount not to exceed $175,000,000; and 5) one or more new series of collateral bonds in an aggregate amount not to exceed $190,000,0000, separate and apart from the request for issuance and sale of bonds.

OVERVIEW

Q. What is the basis for EAI's application for authorization to issue various types and amounts of securities?

A. EAI's last authorization to issue securities was granted by Order No. 2 in Docket No. 95-594-U and authorization for the unused balance was extended by Order No. 2 in Docket No. 97-270-U. That authorization expired December 31, 1999. The Company's application is intended to address general financing needs through December 31, 2001. During that time, "EAI expects to have opportunities to reduce its financing costs and to increase its financial flexibility."[1] "The Company is requesting authorization for such sales primarily to achieve the flexibility that will permit a timely response to changing market conditions when it becomes beneficial for the Company to refinance, refund or otherwise acquire outstanding higher cost securities."[2] By having this variety of issuance authorizations, the Company's intent is to have the ability to select the timing, terms and conditions, and amounts of offerings of several types of securities.

Q. How will the proceeds from the issuance of these various types of securities be used?

A. The Company proposes to use the proceeds "for general corporate purposes, including, but not limited to, the possible acquisition, redemption, and refunding of certain outstanding

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[1] McNeal Direct Testimony, page 4, lines 8-10

[2] McNeal Direct Testimony, page 7, lines 15-19

securities."[3] As stated above, the Company's expectations are that these funds would be used to refinance outstanding, higher cost securities, thus reducing its cost of capital.

HISTORY

Q. Are the types of securities for which authorization is sought similar to those currently authorized?

A. Yes. This Application reflects the same types of securities for which the Company sought authority in Docket No. 95-594-U, and subsequently, in Docket No. 97-270-U sought an extension for the unused portions of those authorizations.

Q. Has this Commission previously addressed the types of securities EAI is requesting authorization to issue in this Docket?

A. Yes. All of the various types of securities described in the Company's Application were previously approved in Docket No. 95-594-U. Only the amount of each issue is different in this Docket.

Q. What concerns did Staff identify in Docket No. 95-594-U?

A. In Docket No. 95-594-U the Company originally requested a five-year authorization period. Staff was concerned about departing from the long-standing practice of a two-year authorization period, in particular, given the uncertainties regarding potential structural changes in the electric industry. EAI subsequently revised its request to reflect a two-year authorization period. Staff was particularly concerned about the use of debentures to replace

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[3] McNeal Direct Testimony, page 7, lines 13-15

first mortgage bonds. Staff was aware of the absence of a lien on assets with this type of instrument and the higher cost of debentures relative to first mortgage bonds.

Q. Briefly address the difference between first mortgage bonds and debentures.

A. A first mortgage bond grants the bondholder a first-mortgage lien on substantially all of its properties; in return the bond pays a lower rate of interest.[4] They are predominately issued by utility companies. A debenture is an unsecured bond and does not have specific assets pledged as collateral. Its holders have the claim of general creditor on all assets of the issuer not pledged specifically to secure other debt. When debentures are issued by companies that already have outstanding first mortgage bonds, the debentures rank below the first mortgage bonds and will pay a higher rate of interest. Order No. 2 in Docket No. 95-594-U granted the Company authority to issue debentures under certain additional reporting requirements. None have been issued to date.

APPROACH

Q. How did you evaluate this Application in the context of these previous Dockets?

A. Staff's concerns are largely the same as previously identified. Those concerns were highlighted by (1) the passage of Act 1556 of 1999 which authorizes the introduction of retail competition into the electric utility industry, and (2) that opportunities for refinancing are not evident in the current interest rate environment.

Q. Did information obtained through discovery support the general proposition that

[4] The Handbook of Fixed Income Securities, 262 (3rd ed. 1991)

opportunities for refinancing debt do not exist at this time?

A. Yes. In response to Staff Interrogatory RB-1, as shown in Attachment 1, EAI stated it is not economically feasible to refinance any outstanding debt at this time. The Company estimated that a decline of seventy-five basis points (.75%) in longer term rates would be necessary before the Company would consider refunding its highest cost taxable debt. EAI also estimated a decline of one-hundred basis points (1.0%) would be necessary to reasonably consider an economic refunding of any outstanding tax-exempt debt.

Q. What were the implications of Act 1556 with regard to your review of the Application?

A. Given that Act 1556 provides for implementation of retail open access on January 1, 2002 and the Company contemplates accomplishing functional unbundling prior to that date, the time frame to accomplish functional unbundling overlaps with the period of financing authority requested. Staff's concern is that this authority should be used solely to address financing needs for normal, continuing business operations such as replacement of maturing issues or refinancing existing capital with lower cost capital. It should not be used to further functional unbundling objectives prior to the proceedings which will address those issues. Additionally, Staff is concerned about additional financing costs being incurred at this time, prior to the possibility of securitization of stranded costs in the transition to competition.

Q. Does the Company's Supplemental Testimony address these concerns?

A. In response to informal discussions along these lines, the Company filed Supplemental Testimony in which Mr. McNeal affirmed that the authorization being sought by EAI is not part of its plan for transition to competition when he said:

> The purpose for the authorization EAI is seeking is to provide it the financial flexibility to continue to provide service in a cost-effective manner prior to the implementation of competition.[5]

Further, Mr. McNeal stated:

> The Company is only seeking authorization for EAI to issue certain financial instruments that will allow it to maintain the financial flexibility to prudently meet its own capital needs. The authorization is not intended to affect in any way whatever authority the Arkansas Public Service Commission ("APSC or the Commission") may have over any unbundling or reorganization EAI may propose or be required to implement due to the advent of retail open access.[6]

With regard to Staff's concern about the costs of refinancing during the next two years prior to securitization, the Company acknowledges the need to preserve the benefits of securitization for ratepayers when Mr. McNeal states:

> EAI is aware of the uncertainties inherent with the pending transition and intends to structure any issuances such that they would not be expensive impediments to the implementation of retail open access. EAI is also aware of the need to preserve the benefits of securization should it elect to securitize any stranded costs it may have.[7]

OPTIONS

Q. What types of debt securities can EAI utilize to provide flexibility prior to retail open access?

A. Four possible debt structures listed in Mr. McNeal's Second Supplemental Testimony are

[5] McNeal Supplemental Testimony, page 3, lines 4-6

[6] McNeal Supplemental Testimony, page 3, lines 12-18

[7] McNeal Supplemental Testimony, page 4, lines 8-12

unsecured debt securities, secured debt securities that by their terms can move with assets, short-term secured debt, and secured debt with periodic coupon resets and low cost callability.[8]

Q. Does the additional financial flexibility of debentures justify the incremental expense of debentures as compared to first mortgage bonds?

A. Not in this case. Mr. McNeal agrees as he states:

> Given current economic conditions and indications from the market, unsecured debt and secured debt with covenants allowing the debt to move with assets are likely to be prohibitively expensive compared to other options.[9]

He elaborates on the undesirability of issuing debentures when he says:

> At this time EAI feels that unsecured debt is not the best option because of its expense as compared to secured debt as well as the limitations on the issuance of unsecured debt that are in EAI's Amended and Restated Articles of Incorporation.[10]

Q. What conclusion does Mr. McNeal draw concerning these four possible debt structures available to the Company?

A. On page 6 of his Second Supplemental Testimony, lines 12-14, he states, "EAI's present view is that short-term, floating-rate secured debt or short-term secured debt can best provide the necessary flexibility for the upcoming period of uncertainty."

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[8] McNeal Second Supplemental Testimony, page 4, lines 6-10

[9] McNeal Second Supplemental Testimony, page 4, lines 17-20

[10] McNeal Second Supplemental Testimony, page 5, lines 6-9

Q. Do you agree with this conclusion?

A. Yes. Given the uncertainties involved in the transition to retail open access over the next two years and the associated implications for long-term, permanent financing, I agree that the Company should utilize short-term financing to the fullest extent possible during this period.

RECOMMENDATION

Q. What is your recommendation?

A. Based on the specific additional representations made by the Company in Mr. McNeal's supplemental testimonies and subject to certain reporting requirements, I recommend the Application be approved. However, nothing in my testimony constitutes a recommendation of value for ratemaking purposes. The appropriate ratemaking treatment of any of the issues addressed in this Docket are expressly reserved for future consideration.

Q. What reporting requirements do you recommend?

A. I recommend the traditional reporting requirements which include the specific terms of the issuance including the actual interest rate and maturity date, all fees and other relevant facts, and the detailed accounting entries to record the transactions. These filings should be made in Docket No. 86-033-A with reference to this Docket within thirty (30) days of the issuance or effective date, as applicable. Additionally, the Company should be required to include a detailed discussion of the rationale for using a specific type of financing method. With regard to the issuance of debentures, I further recommend the Company be required to file a comparative analysis at the time of the planned issuance to show the overall costs of debentures relative to the costs of other financing alternatives, including first mortgage bonds. This analysis should include a detailed, comprehensive and quantitative evaluation of any factors that offset the higher incremental cost of debentures versus first mortgage bonds.

Q. Does this conclude your testimony?

A. Yes, it does.

<u>CERTIFICATE OF SERVICE</u>

I, Jan Sanders, hereby certify that a copy of the foregoing Testimony has been served on all parties of record by forwarding the same by first-class mail, postage prepaid, this 21st day of January, 2000.

Bill Mathis (acting)
Jan Sanders
Secretary of the Commission

ENTERGY ARKANSAS, INC.
ARKANSAS PUBLIC SERVICE COMMISSION
Docket No. 99-234-U

Response of: Entergy Arkansas, Inc.
to the First Set of Data Requests
of Requesting Party: Arkansas Public Service Commission

Prepared By: David Center
Filed: 11/29/99
Beginning Sequence No.

Ending Sequence No.

Question No.: APSC 1-1 Part No.: Addendum:

Question:

Given the cost of EAI's outstanding debt in the current interest rate environment, is it economically feasible to refinance any outstanding debt issues at this time? If not, based on your analysis, approximately what magnitude of decline in long-term interest rates would make such a refinancing cost effective?

Response:

It is not economically feasible to refinance any outstanding debt in the current interest rate environment.

If interest rates decline, one debt issue that might become economically refundable is the $85 million, 8.75% First Mortgage Bonds due March 1, 2026. Based on the current economic and interest rate environment, it would take an approximately 75 basis point drop in interest rates for the company to consider refunding this issue. Other influences, such as EAI's credit rating or the general economic environment could impact the analysis in either direction.

All of the other outstanding First Mortgage Bonds and Pollution Control Bonds would require interest rate changes in excess of 100 basis points for the company to reasonably consider an economic refunding. As mentioned earlier, changing market conditions may alter the analysis.

ARKANSAS PUBLIC SERVICE COMMISSION

ORDER NO. 1

ISSUED JANUARY 26, 2000

IN APSC DOCKET NO. 99-234-U

JAN 26 12 36 PM '00

ARKANSAS PUBLIC SERVICE COMMISSION

FILED

IN THE MATTER OF THE APPLICATION OF ENTERGY ARKANSAS, INC. FOR AUTHORIZATION TO ENTER INTO CERTAIN FINANCING TRANSACTIONS DURING THE YEARS 2000 THROUGH 2001	)))))	DOCKET NO. 99-234-U ORDER NO. 1

ORDER

On August 30, 1999, 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*, Entergy Arkansas, Inc. ("EAI") filed an Application for Authorization to Enter into Certain Financial Transactions during the Years 2000 through 2001 ("Application"). With its Application, EAI also filed the Direct Testimony of Steven C. McNeal. On November 19, 1999, and January 18, 2000, respectively, Mr. McNeal filed Supplemental and Second Supplemental Testimony in further support of the Application. On January 21, 2000, Mr. Rob Brunner, a Financial Analyst for the General Staff of the Arkansas Public Service Commission ("Staff"), filed Prepared Testimony in response to EAI's Application.

EAI requests authorization from the Commission to issue and sell: 1) one or more series of first mortgage bonds and one or more series of debentures, the combined issuance of which would not exceed \$660 million; 2) issuances of one or more of three series of Preferred Stock or preferred securities, the combined issuance of which would not exceed \$185 million; 3) an aggregate amount of common stock, not to exceed \$100 million; 4) one or more series of tax-exempt bonds, the combined issuance of which would not exceed \$175 million; and, 5) one or more series of collateral bonds in an aggregate amount not to exceed \$190 million, separate from the issuance and sale of bonds. A similar proposal for financing by EAI was last approved for two years by the Commission by Order No. 2 in Docket No. 95-594-U, and extended an additional two years by Order No. 2 in Docket No. 97-270-U. That authorization expired on December 31, 1999. This application addresses EAI's financing needs for the period through December 31, 2001.

EAI argues that its proposal would allow it the flexibility necessary to respond to changes in the market which may become beneficial for refinancing of higher cost securities. EAI proposes to use the proceeds of any financing for "general corporate purposes, including, but not limited to, the possible acquisition, redemption, and refunding of certain outstanding securities."[1]

In responding to EAI's Application, Staff notes that it initially continued to have the same concerns expressed in prior EAI Applications, with those concerns highlighted by (1) the passage of Act 1556 of 1999, authorizing implementation of competitive, retail generation service, and (2) the current securities market, which does not appear to provide the refinancing opportunities EAI discusses. Prompted by informal discussions with Staff, EAI supplemented its original Application and supporting testimony prior to Staff's recommendation in this docket. That additional Supplemental and Second Supplemental EAI testimony appear to address Staff's concerns.

Staff advises the Commission that it initially was concerned about the overlap of the functional unbundling process required under Act 1556 of 1999 with that of the financing authority requested by EAI in its Application. In response, EAI provides assurances that the purposes of any financing under the authority provided by the Commission will be for the general purposes of providing cost effective service "prior to competition"[2]. EAI further assures the Commission that authorization as requested in

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[1]McNeal Direct testimony, page 7, lines 13-15.

[2]McNeal Supplemental Testimony, page 3, lines 4-6.

this Application is in no way intended to affect Commission authority over the unbundling process or any reorganization resulting from competitive access.

Staff also advises the Commission that it had certain concerns regarding increased financing costs in light of a possible EAI securitization request. To that concern, EAI assures the Commission that its financing issuances, as granted under the authority requested, will be structured such that "they would not be expensive impediments to the implementation of retail open access . . ."[3] and, would "preserve the benefits of securitization should (EAI) elect to securitize any stranded costs it may have."[4]

As to Staff's continued concern regarding the cost-benefit of refinancing in the current securities market, EAI concludes in its supplement to the Application that only "short-term, floating-rate secured debt or short-term secured debt can best provide the necessary flexibility for the upcoming period of uncertainty."[5] Staff advises the Commission that EAI's conclusion in this regard comports with its own and that EAI should utilize such short-term financing to the fullest extent possible during this period.

In view of EAI's supplement to its Application, while reserving any finding for purposes of ratemaking, the Staff recommends that the Commission approve EAI's Application based on the specific additional representations made by EAI in Mr. McNeal's supplemental testimonies and subject to certain specific, detailed reporting requirements.

For purposes of all issuances, Staff proposes that EAI provide traditional reporting information, including the specific terms, actual interest rate and maturity date of the issuance, all fees and other relevant facts, and the detailed accounting entries for the transactions. Staff proposes that EAI also be

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[3] McNeal Supplemental Testimony, page 4, lines 8-12.

[4] McNeal Supplemental Testimony, page 4, lines 8-12.

[5] McNeal Second Supplemental Testimony, page 6, lines 12-14.

required to include detailed discussion of EAI's reasoning in selecting the financing method. This information should be filed in Docket No. 86-033-A, with reference to this docket, within 30 days of the issuance or effective date, as applicable. In addition, Staff also proposes that, for issuances of debentures, EAI "be required to file a comparative analysis at the time of the planned issuance to show the overall costs of debentures relative to the costs of other financing alternatives, including first mortgage bonds. This analysis should include a detailed, comprehensive and quantitative evaluation of any factors that offset the higher incremental cost of debentures versus first mortgage bonds."[6]

IT IS, THEREFORE, ORDERED THAT:

While expressly reserving for future consideration any finding regarding the appropriate ratemaking treatment of any of the issues for which approval has been requested, EAI's Application is hereby approved, subject to the specific additional representations made by EAI in the supplemental testimonies of Mr. McNeal and the reporting requirements recommended by Staff.

BY ORDER OF THE COMMISSION.

This 26th day of January, 2000.

Jim von Gremp, Chairman

Sam I. Bratton, Jr., Commissioner

Betty C. Dickey, Commissioner

Bill Mattos (acting)
Jan Sanders
Secretary of the Commission

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[6]Prepared Testimony of Rob Brunner, page 10-11, lines 19-20, 1-4,

EAI'S COMPLIANCE REPORT

FILED WITH THE APSC

IN REPORTING DOCKET NO. 86-033-A

ON APRIL 4, 2000

PURSUANT TO ORDER NO. 1

IN DOCKET NO. 99-234-U

Entergy

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SE... ...M.

APR 4 3 09 PM '00

FILED

Entergy Arkansas, Inc.
425 West Capitol Avenue
P. O. Box 551
Little Rock, AR 72203
Tel 501 377 4457
Fax 501 377 4415

Steven K. Strickland
Director
Regulatory Affairs

April 4, 2000

Ms. Jan Sanders
Secretary of the Commission
Arkansas Public Service Commission
P. O. Box 400
1000 Center Street
Little Rock, AR 72203-0400

Re: Originating Docket: 99-234-U
Report Docket: 86-033-A
Pursuant to Order No. 1
In the Matter of the Application of Entergy Arkansas, Inc. for Authorization to Enter Into Certain Financing Transactions During the Years 2000 Through 2001

Dear Ms. Sanders:

Please find attached the original and thirteen copies of Entergy Arkansas, Inc.'s report to the Commission in the above-styled proceedings. This report is required under Order No. 1 in Docket No. 99-234-U.

Please file this letter and the attached report in the appropriate docket.

Sincerely,

SS/tj
Attachments

APSC DOCKET NO. 99-234-U
(Report Docket No. 86-033-A)

ENTERGY ARKANSAS, INC.

ISSUANCE OF FIRST MORTGAGE BONDS: $100,000,000 7.72% SERIES DUE MARCH 1, 2003

EXECUTIVE SUMMARY

TRANSACTION ANALYSIS AND RESULTS

On March 9, 2000, Entergy Arkansas, Inc. ("EAI") issued $100,000,000 aggregate principal amount of First Mortgage Bonds at an interest rate of 7.72%. EAI had been utilizing short-term borrowings for several months and was in need of permanent financing to fund its cash needs. First Mortgage Bonds proved to be the best method for financing due to lower pricing and better demand (as compared to unsecured debt) in the current market environment. EAI chose a three year fixed rate structure with make-whole call provisions for the life of the bonds. Although the 2003 maturity is past the stated date for competition in Arkansas, EAI believes the make-whole call premium will not be significant if the bonds need to be called early in connection with unbundling and the transition to competition. If competition is delayed for up to 18 months following the January 1, 2002 transition date, (as is permitted by the unbundling legislation), the bonds will mature within this window, and can be refinanced at one of the 'unbundled' EAI entities.

The net proceeds from the issuance were $99,650,000 after deducting underwriting expenses. The net proceeds were used to reduce short-term indebtedness that was incurred for working capital needs, for capital expenditures and for general corporate purposes.

SUMMARY OF TERMS

Principal Amount:	$100,000,000
Maturity Date:	3/1/2003
Call Provisions:	Make Whole Call @ Treasury + 0.125%
Underwriters:	Salomon Smith Barney (Lead) Banc One Capital Markets, Inc Barclays Capital Scotia Capital
3 Year Treasury Yield @ Pricing:	6.62 %
Spread:	1.10%
Yield to Public:	7.72%
Initial Rate/Coupon Rate:	7.72 %

SUMMARY OF TERMS (CONTINUED)

Price to Public:	100.00 %
Underwriters' Compensation:	0.35%
Price to Company:	99.650 %
Bond Equivalent Cost to Company After Fees:	7.853 %
Proceeds to Company:	$99,650,000

JOURNAL ENTRIES

Exhibit A shows journal entries related to the issuance of the new series of First Mortgage Bonds.

EXHIBIT A
APSC DOCKET NO. 99-234-U
(Report Docket No. 86-033-A)

ENTERGY ARKANSAS, INC.
ENTRIES TO RECORD THE ISSUANCE OF
$100,000,000 FIRST MORTGAGE BONDS

Entry No. 1

Cash	$99,650,000	
Unamortized Debt Expense – FMB (Underwriting Fee)	$350,000	
Long Term Debt – First Mortgage Bonds		$100,000,000

To record the sale of $100,000,000 principal amount of 7.72% Entergy Arkansas, Inc. First Mortgage Bonds, due March 1, 2003, and the related underwriting fee.

Entry No. 2

Unamortized Debt Expense – FMB	$*	
Cash		$*

To record expenses in connection with the issuance of $100,000,000 principal amount of 7.72% Entergy Arkansas, Inc. First Mortgage Bonds, due March 1, 2003. (*Total expenses are estimated to be approximately $100,000. Actual expenses will not be known for several months subsequent to closing.)

ENTERGY ARKANSAS, INC.

APSC DOCKET NO. 99-234-U
(Report Docket No. 86-033-A)

I, Nathan E. Langston, Vice President and Chief Accounting Officer, attest on this 30th day of March, 2000, that the attached journal entries correctly reflect the effect of the sale on March 9, 2000 of $100,000,000, 7.72% Entergy Arkansas, Inc. First Mortgage Bonds due March 1, 2003.

Nathan E. Langston

Nathan E. Langston
Vice President and Chief Accounting Officer