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. 15-015-U

DIRECT TESTIMONY

OF

HUGH T. MCDONALD

PRESIDENT AND CHIEF EXECUTIVE OFFICER

ENTERGY ARKANSAS, INC.

ON BEHALF OF

ENTERGY ARKANSAS, INC.

APRIL 24, 2015

I. BACKGROUND AND INTRODUCTION

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

A. My name is Hugh T. McDonald. I am employed by Entergy Arkansas, Inc. ("EAI" or the "Company") as President and Chief Executive Officer ("CEO"). My business address is 425 West Capitol Avenue, Little Rock, Arkansas 72201.

Q. ON WHOSE BEHALF ARE YOU TESTIFYING?

A. I am testifying on behalf of EAI.

Q. PLEASE DESCRIBE YOUR EDUCATION, PROFESSIONAL AND WORK EXPERIENCE.

A. I joined Middle South Services, Inc., now Entergy Services, Inc. ("ESI"),[1] in 1982 as an engineer at the Waterford 3 nuclear station in Louisiana. In 1989, I was promoted to executive assistant to the Chairman and CEO of Louisiana Power & Light Company/New Orleans Public Service Inc. I led Entergy Louisiana's total quality initiative until 1993. During Entergy Corporation's merger with Gulf States Utilities Company, I served as the special projects director for the functional integration of the transmission, distribution, and customer service organizations.

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

In 1994, I held the position of division manager of customer service for Entergy Mississippi, Inc. In 1995, I was promoted to Director, Regulatory Affairs-Texas, and was responsible for Entergy Gulf States, Inc.'s rate proceedings, rulemakings, and transition to competition activities before the Public Utility Commission of Texas ("PUCT"). I held this position until April 1999. I then led the ESI retail operations in New Orleans until June 2000. I was named to my present position, President and CEO of EAI, on June 1, 2000.

I was awarded a Bachelor of Science degree in Construction Management from North Dakota State University in 1980. I earned a Masters degree in Business Administration from the University of New Orleans in 1987.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE A REGULATORY COMMISSION?

A. Yes. I have presented testimony on policy issues to the Arkansas Public Service Commission ("APSC" or the "Commission") related to the Company in APSC Docket Nos. 99-249-U, 00-190-U, 00-329-U, 01-084-U, 03-028-U, 04-023-U, 05-116-U/06-055-U, 06-101-U, 06-152-U, 08-091-U and 09-024-U; 10-008-U, 10-011-U, 11-069-U, 12-038-U, 12-069-U, and 13-028-U. I also have testified on fuel, base rate and transition to competition issues in rate proceedings and rulemakings before the PUCT.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to:

1. provide an overview of the Company, the Company's role in supporting Arkansas, the key challenges the Company faces, and steps EAI is taking to position itself to address these challenges in order to continue to provide reliable electricity at a reasonable price and support economic development investment in this state;
2. provide a summary of the major components of this case including:
   - the factors driving the need for a change in base rates;
   - notice of the Company's election to implement a formula rate review mechanism pursuant to Act 725 of 2015 ("Act 725" or the "Act")[2] and an explanation of benefits to customers and the Company;
   - an overview of EAI's proposed cost allocation methodology and how it also supports key economic development policy initiatives;
   - the critical need for full recovery of prudently incurred costs and a return on equity ("ROE") that will not only provide investors a competitive return on investment in EAI, but also encourage the Company to make the

[2] Ark. Code Ann. §23-4-1201-1209.

necessary investments in its infrastructure to promote economic development and job creation in Arkansas consistent with the stated objectives of the gubernatorial administration and Arkansas Department of Economic Development;

- a general overview of the tariff changes proposed by EAI.

3. provide an overview of the impact on customers' bills as a result of the Company's request to change its rates in this case, including how the Company's proposed rates compare to the regional and national average for electric rates; and
4. introduce the witnesses who are submitting testimony on behalf of the Company in this case and provide a summary of the topics included in their testimony.

Q. PLEASE PROVIDE AN OVERVIEW OF THE COMPANY.

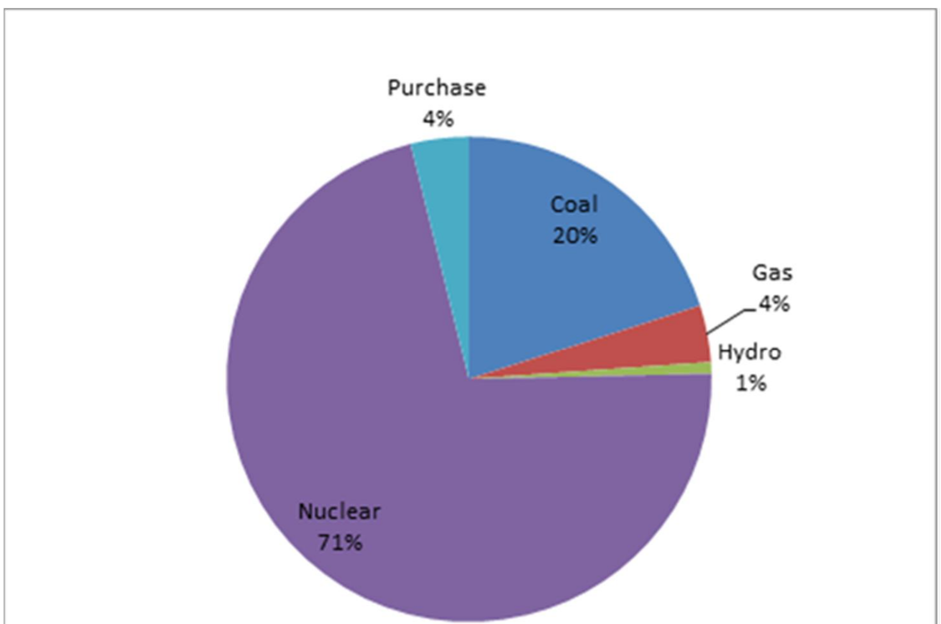
A. EAI is a vertically integrated electric utility – consisting of generation, transmission, distribution, and customer service functions – that serves over half of all electric utility customers in the State of Arkansas. EAI was founded in 1913 as Arkansas Power Company when Harvey Couch signed an agreement to purchase steam from a Malvern lumber mill to generate electricity to supply customers in Malvern and Arkadelphia. The Company later re-incorporated as Arkansas Power & Light Company in 1926, and now does business as Entergy Arkansas, Inc.

From this start, EAI's customer base has grown to over 700,000 residential, commercial, industrial, and governmental customers located in 63 of Arkansas' 75 counties, covering over 40,880 square miles. The Company controls, through ownership or through purchase power contracts, a diverse array of generating resources totaling approximately 5,277 MW to serve these native load customers. The Company's nuclear power resources include 1,721 MW in the two-unit Arkansas Nuclear One plant located near Russellville and 307 MW from the Grand Gulf Nuclear Station ("Grand Gulf") near Port Gibson, Mississippi under a long-term purchase power contract. EAI also utilizes 1,031 MW from coal-fired generation at the White Bluff Steam Electric Station ("WB") and Independence Steam Electric Station ("ISES") located near Redfield and Newark. EAI shares ownership of WB with the Arkansas Electric Cooperative Corporation and several municipal electric utilities and shares ownership of ISES with Entergy Mississippi, Inc. (EMI), the Arkansas Electric Cooperative Corporation, Entergy Power Inc., an Entergy affiliate, and several municipal electric utilities. The Company's generation fleet is rounded out with 94 MW of hydro-electric capacity along the Ouachita River Valley and 2,224 MW of natural gas-fired generation that includes 597 MW from the Hot Spring Plant and the 489 MW from the Ouachita Plant, which are both modern combined cycle gas turbines ("CCGT") located near Malvern, Arkansas and Sterlington, Louisiana, respectively. In Docket No. 14-118-U, EAI has also requested authorization from the

APSC to purchase Power Block 2 ("PB 2") of the Union Power Station ("UPS") in El Dorado, Arkansas, from which the Company is currently purchasing 495 MW of capacity through a short-term Purchase Power Agreement ("PPA") approved in Docket No. 12-038-U. Finally, EAI has requested authorization from the APSC to enter into a long-term PPA with Stuttgart Solar, LLC for 81 MW of solar power in Docket No. 15-014-U.

Figure 1 below shows the percentage, by fuel type, of EAI's energy sources in 2014.

Figure 1
Energy Sources Used to Serve EAI's Customers



Source: 2014 Billing Data

This generation portfolio not only provides a clean, low cost, and diverse energy mix for EAI's customers, but also, through EAI's participation in Midcontinent Independent System Operator, Inc. ("MISO"), produces real, economic benefits that are reflected in customers' rates.

The benefits of this generation portfolio are only able to be realized because of the robust network of transmission and distribution facilities owned and maintained by EAI. As of December 31, 2014, this network consists of approximately 1,107 circuit miles of high voltage transmission lines of 230 kV or greater; approximately 3,744 circuit miles of transmission lines of 69 through 161 kV; approximately 38,400 miles of distribution lines 34.5 kV and lower, as well as about 449 substations. EAI witnesses S. Brady Aldy and Melinda K. Montgomery describe these facilities and the investment being made by EAI to support these assets in their respective direct testimonies.

Q. PLEASE PROVIDE SOME BACKGROUND REGARDING THE PURPOSE OF YOUR TESTIMONY.

A. In 2013, EAI culminated years of planning and preparation for exiting the Entergy System Agreement[3] by filing a general rate case aimed primarily at resetting the Company's rates and redesigning the Company's tariffs to reflect this post System Agreement planning and operating environment as well as making changes to reflect EAI's newly-approved membership in

[3] The System Agreement is a rate schedule approved by the Federal Energy Regulatory Commission and contract entered into among ESI and the Operating Companies, which requires the Operating Companies to plan, construct and operate their generation and bulk transmission facilities as a single, integrated electric system. On December 19, 2005, EAI gave notice that it will terminate its participation in the System Agreement effective December 18, 2013.

the MISO Regional Transmission Organization ("RTO"). Combined, these changes are estimated to provide hundreds of millions of dollars in long-term benefits to EAI's customers. An update to the Evaluation Report that was submitted to the Commission on May 12, 2011 in Docket No. 10-011-U was recently completed to estimate the savings customers experienced during EAI's first full year of operations in MISO. The conclusion resulting from the update is that EAI's customers experienced meaningful cost savings in 2014 estimated at $46 million. Company witness Kurtis W. Castleberry discusses this savings estimate in more detail in his direct testimony.

Now that these transformational changes are behind us and customers are reaping the benefits, EAI must position itself to be able to continue to provide sustainable value for its four key stakeholders: customers, employees, communities, and owners. To achieve this value, the Company's overarching goals are to (1) provide safe and reliable power at a reasonable price, (2) operate efficiently and in a manner responsive to customers' needs, (3) maintain financial strength and stability, and (4) promote the economic development of the State of Arkansas by investing in the electrical infrastructure that is needed to support growth. Achieving these goals, however, requires significant capital investment, which is occurring at a time when sales growth is relatively flat, driving the need for a change to the traditional regulatory framework. My testimony provides insight into the challenges the

Company faces and the need for a new regulatory framework to address these challenges so that EAI can continue to create value for the State of Arkansas and its residents.

Q. PLEASE EXPLAIN WHY THE REGULATORY FRAMEWORK THAT HAS BEEN IN EXISTENCE FOR DECADES DOES NOT SUPPORT THE ACHIEVEMENT OF THESE GOALS.

A. It has become evident that the current regulatory framework, established in the 1930s, no longer reflects the current business environment utilities face. Costs are increasing as a result of significant investment due to aging infrastructure, environmental and regulatory compliance requirements, local and regional transmission projects to address grid reliability and power flow congestion issues, and generation investments to address replacement of older, legacy units and upgrading to newer, more efficient technologies, all while the electric power business and customers' consumption patterns and service expectations continue to evolve. In fact, EAI's overall sales growth was 0.4 percent annually over the last decade. Consequently, new rate structures are required to support this capital spending, as it has become apparent that the current regulatory framework is not an efficient means of addressing this investment for customers or for the Company. Moreover, the current regulatory framework does not adequately address the risks and demands faced by the Company so that it can continue to play a vital role in economic development and job creation in the state.

The 90th General Assembly acknowledged these challenges last month when lawmakers passed Act 725 with no dissenting votes. The Act, supported by a broad coalition of stakeholders, recognized that a supportive regulatory environment is not only in the public interest, but also is essential in order for Arkansas to compete within the surrounding region to attract new businesses and to support job creation and expansion of existing businesses. Recognizing the need to balance financial stability for the utility while maintaining reasonable rates for customers, the Act authorizes utilities to elect to implement a formula rate review mechanism utilizing a forward test year. Such a mechanism will better align costs with revenues and provide rate stability through a streamlined annual review and update to rates, with a four percent annual cap on increases, versus traditional time-consuming and costly rate cases, that has no cap on increases. The Act also sets forth new policies for determining a reasonable ROE, recovery of the allowance for funds used during construction ("AFUDC"), and cost allocation and rate design that will better position the state for job growth and economic development.

Q. ARE THERE OTHER FACTORS AFFECTING EAI'S ABILITY TO ACHIEVE THESE GOALS?

A. Yes. The new regulatory framework set forth in Act 725 is a significant step towards providing EAI the tools it needs to serve customers and expand economic development. However, EAI can only continue to invest in the long-term growth of the State of Arkansas if it is also allowed to recover its prudently incurred costs. In the Company's last base rate proceeding, a fully-litigated case on many issues, Order No. 21 resolved most disputed cost recovery issues against the Company. As a result, the total base rate increase approved in that case was only $37 million.[4] This outcome has been a major contributor to EAI booking an ROE of 6.46 percent in 2014, drastically less than even the allowed 9.5 percent approved in Order No. 35.

Q. PLEASE DESCRIBE HOW ACT 725 APPLIES IN THIS CASE?

A. EAI is providing notice as part of this rate case that it elects to implement a Formula Rate Plan ("FRP") pursuant to the Act. As Company witness Jay A. Lewis explains, EAI's FRP is beneficial to customers by ensuring rates are closely aligned with the Company's costs as they are incurred, which avoids the potential for large swings in rates as is typical with the traditional rate-making process, and provides for an increase or reduction to EAI's cost structure, subject to a +/- 50 basis point band-width, for any year in which the Company is estimated to earn more or less than is

[4] This figure is net of the $49 million that was already being recovered from customers through riders and that was transferred from rider recovery to base rates in Docket No. 13-028-U.

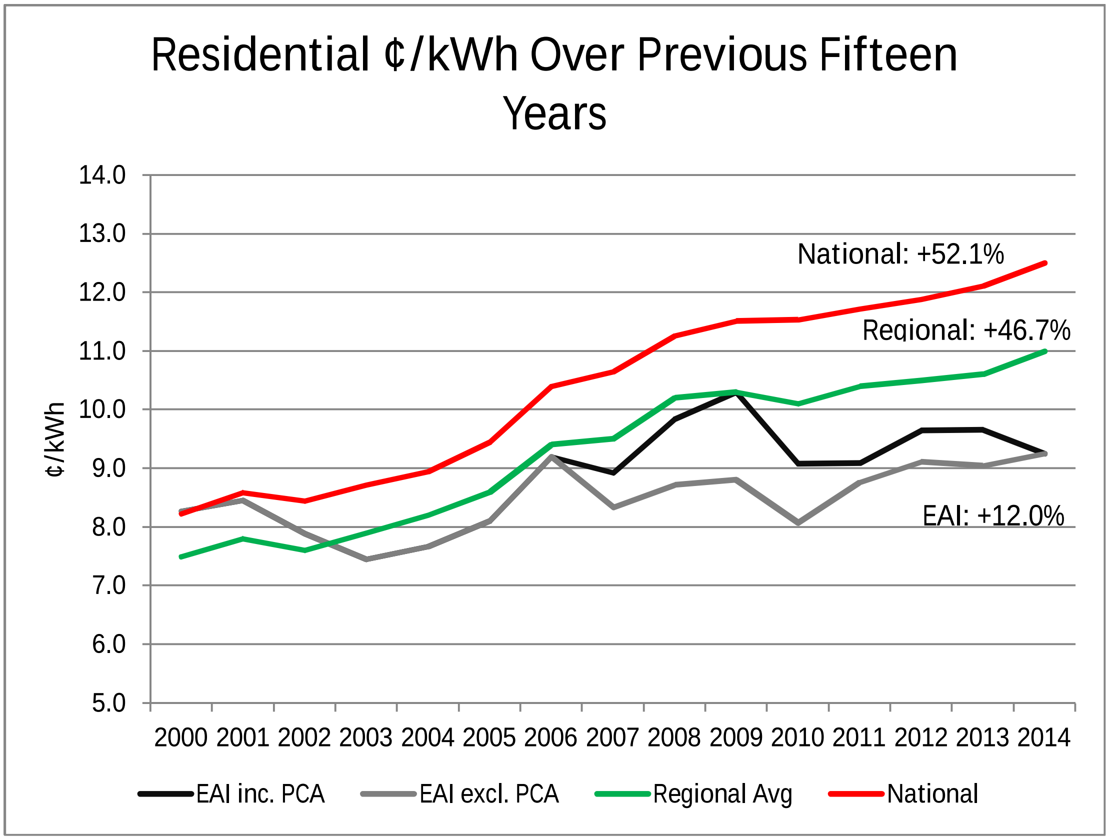
authorized by the Commission. It is likewise beneficial to the Company by reducing the length of time between when EAI incurs costs on behalf of its customers and the recovery of those costs. In addition, the Company has utilized the provisions of Act 725 regarding the type of evidence parties may present in supporting its recommended ROE, and has provided broad evidentiary support for its recommended ROE in this case.

Finally, the Company is also proposing to change its cost allocation and rate design, pursuant to Act 725, to utilize the Average and Excess Four Coincident Peak ("A&E 4CP") cost allocation methodology for production costs and design rates for its large industrial customers to ensure that all production demand and capacity related costs are identified and allocated based on a demand rate component. As described in the direct testimony of EAI witness Myra L. Talkington, the methodology provides a reasonable balance between two primary costing concerns, contribution to the system peak and energy requirements. Also, as described by EAI witness Mike L. Maulden, the A&E 4CP cost allocation methodology will be beneficial to economic development and the promotion of job creation in the state for new and existing businesses. As Mr. Maulden states, economic development is one of the gubernatorial administration's key initiatives. EAI recognizes that economic development and job growth are the foundation for a better economy and life for our customers and their communities. EAI remains willing and eager to do its part in supporting economic development in Arkansas and has proposed changes in this rate case to give the Company the tools it needs to support this growth, while keeping its rates competitive with the regional and national averages.

Q. HOW HAVE EAI'S RESIDENTIAL CUSTOMER BILLS HISTORICALLY COMPARED TO THE REGIONAL AND NATIONAL AVERAGE?

A. Over the past 15 years, EAI's residential rates have consistently remained below the regional and national average and among the lowest rates in the state of Arkansas in recent years. The chart below shows how EAI's residential rates have compared over time to both the regional and national average on residential price per kWh basis:

Chart 1
Residential Rate Comparison From 2000-2014[5]



As this chart demonstrates, EAI has been able to provide reliable electric service and quality customer service, as well as making major investments for the future, as rates have remained relatively low for customers. What is currently in rates, however, is not sufficient to address the looming capital investment that the Company is facing and that I describe later in my testimony.

[5] See http://www.eia.gov/electricity/data/eia861/

II. ENTERGY ARKANSAS, INC.'S COMMITMENT TO THE COMMUNITY, KEY CHALLENGES, AND FUTURE OPERATION

Q. PLEASE DESCRIBE THE EFFORTS EAI HAS MADE TO HELP SUPPORT THE COMMUNITIES THE COMPANY SERVES.

A. EAI strives to create sustainable value for its four key stakeholders I previously mentioned: customers, employees, communities and owners. EAI has made a strong commitment to the communities it serves.

EAI and its affiliates ESI and Entergy Operations, Inc.[6] are major employers in the state, with a combined workforce of approximately 2,700 employees and more than a quarter of a billion dollars in annual payroll. EAI also is a significant source of revenue for state and local government and funding for various community initiatives. EAI paid $108 million in state and local taxes and franchise fees in 2014.

The Company, its shareholders and its employees also strive to make a difference in the Arkansas communities that we serve through charitable giving and volunteer hours. From 2010 through 2014, EAI contributed over $8 million in grants and $3 million in employee and Company United Way contributions across the state to hundreds of non-profit organizations. During the same five year period, through its Power to Care program, EAI raised approximately $2.9 million for bill payment

[6] Entergy Operations, Inc. ("EOI") is a subsidiary of Entergy Corporation that specializes in the operation of the Entergy Operating Companies' nuclear plants. Arkansas Power & Light Company (now, EAI) transferred its Nuclear Regulatory Commission ("NRC") operating license for ANO to Entergy Operations with approval of the APSC, granted in Docket No. 89-128-U. EAI remains the owner of ANO.

assistance for the elderly and disabled, assisting approximately 17,200 customers. Finally, through Entergy Corporation's Super Tax Day program, the Company helps to raise awareness of federal tax credits available to its low income customers. This program was recognized by the United States Chamber of Commerce Foundation as the Best Economic Empowerment program in 2014 to help low income customers along the path to economic self-sufficiency. It has resulted in over $25 million in federal Earned Income Tax Credits being returned to approximately 17,000 EAI customers since 2009. These efforts and more are further described in the direct testimony of Mr. Maulden.

Q ARE THERE OTHER WAYS THAT EAI HAS DEMONSTRATED ITS COMMITMENT TO ITS STAKEHOLDERS?

A. Yes. EAI has been a leader in building Arkansas industry and job growth for over 100 years and intends to continue to lead that effort for another 100 years and beyond. Reliable and competitively priced electric power is a key factor businesses take into account when making location decisions. Utilities with rates lower than the national and regional average are better positioned to attract economic development projects that create jobs, grow the economy, and increase the tax base. Prior to EAI's last rate case, EAI has been able to play a vital role working with state and local governments and communities in their efforts to attract industry, and the Company has been able to invest in the infrastructure necessary to turn those economic development opportunities into a reality. Specifically, EAI's Economic and Business Development organization offers its expertise to companies searching for a new business location or to expand an existing facility. EAI's economic development efforts are more fully described in the direct testimony of Mr. Maulden.

With the regulatory reform changes made by Act 725, the recovery of prudently incurred costs, the adjustment in the rate structure, and an improved ROE, as the Company is recommending in this docket, EAI will be in a position to enhance its economic development partnership with the state with greater financial flexibility and capability to invest in discretionary economic development projects, as opposed to the more limited role it has played since the outcome of Docket No. 13-028-U, consistent with the objectives of the gubernatorial administration and the Arkansas Economic Development Commission.

Q. DO ALL CUSTOMERS BENEFIT FROM EAI BEING ACTIVELY INVOLVED IN ECONOMIC DEVELOPMENT AND THE GROWTH OF THE STATE?

A. Absolutely. Economic development aligns the interests of all four stakeholders with shared objectives. When a new industrial facility is located in Arkansas, jobs are created, and the state and local tax base is increased, which enables our communities to provide additional services to its citizens. Customers also benefit by the overall growth of additional kilowatt hour sales that contributes to keep all customers' $/kWh rates lower compared to what they otherwise would be.

Q. COULD YOU PROVIDE AN EXAMPLE?

A. Yes. The energy and demand that any new customer, particularly a large industrial customer, consumes when it begins taking service will generate revenues in excess of the revenue requirement associated with the return on the capital investment and the recovery of the expenses to serve them. This revenue in excess of the return on the investment and the recovery of the associated expense typically serves as a direct offset to any other rate increase need. Using the proposed forward test year FRP EAI is proposing and including the hypothetical industrial customer in the forecasted period used to calculate the FRP rate, then all customers will get the benefit of the revenues in excess of the revenue requirement.

Q. WHAT ARE SOME OF THE CHALLENGES THAT CONFRONT EAI AND THE INDUSTRY AS A WHOLE?

A. EAI and the U.S. electric utility industry in general are undergoing a time of decreased electricity consumption, significant investment, rapidly evolving customer expectations and uncertainty surrounding evolving standards and environmental regulation. In its article entitled "The Math Does Not Lie: Factoring the Future of the U.S. Electric Power Industry," the Deloitte Center for Energy Solutions summarized these challenges very well, describing two main emerging trends in the electric industry:

> The two future trends are steeply rising costs coupled with the potential for slow, stagnant, or even declining electricity consumption. Together, they may well alter the equation for the power sector during this decade.
>
> The first trend, rising utility costs, stems from an unprecedented increase in capital spending to address aging infrastructure, an evolving set of environmental regulations, renewable portfolio standards, nuclear plant safety mandates, and changes in the cost of capital, among other factors. The second trend is stable or declining levels of electricity consumption as projected by government and industry analysts. The Energy Information Administration's (EIA) Annual Energy Outlook 2012 projects that net electricity available to the grid will increase from 3,938 billion kilowatt hours in 2013 to 4,084 in 2020. These numbers reflect the assumption of growth in electricity consumption at an annual level of just 0.73%.[7]

Q. HOW ARE THESE CHALLENGES AFFECTING EAI?

A. EAI has taken steps to keep our customers' electricity rates reasonable by actions such as joining MISO, exiting the System Agreement, implementing organization restructuring, deferring additional generation investment through energy efficiency efforts, and acquiring existing generation rather than building new generation. However, further investment in the Company's utility infrastructure (generation, transmission, and distribution) is needed to ensure the continued provision

[7] Deloitte Center for Energy Solutions, *The math does not lie: Factoring the future of the U.S. electric power industry*, Nov. 6, 2012.

of reliable service to the Company's customers. Like other utilities across the country, EAI is facing significant capital expenditure requirements for the foreseeable future due to challenges and opportunities associated with increasing regulatory requirements and modernization of the U.S. electric grid. These challenges include, but are not limited to, significant forecasted capital requirements, new environmental compliance and regulatory requirements, critical infrastructure protection requirements, responding to unplanned events such as storm restoration, and the ability to proactively support local economic development opportunities by aggressively promoting the recruitment of new and expansion of existing businesses.

Q. CAN YOU ELABORATE ON SOME OF THESE CHALLENGES?

A. EAI faces uncertainty created by proposed changes in federal and state energy and environmental policies. The EPA's regional haze rules and its Clean Power Plan will impact existing generating units and transmission system construction and operation in a significant way, much of which is uncertain at this time.

In addition, there is increased focus on efforts to enhance the security of the nation's electrical infrastructure to protect against physical and cyber-attacks, which will also require additional investment. In the pro forma period alone, the Company expects to spend $21 million of capital related to its compliance with NERC Critical Infrastructure Protection

("CIP") reliability standards. NERC is continuously revising and developing additional components of its CIP standards to combat and prevent the growing threats to our country's electrical infrastructure. As a result of the efforts to bolster the national grid's resilience, EAI is experiencing increasing security and compliance costs.

In addition, as Arkansas residents know far too well, this state is susceptible to frequent and severe weather events from ice storms to damaging tornadoes. For example, in April 2014, the Company's 500kV Mayflower substation was destroyed by an EF-4 tornado, as well as several transmission lines in its same path, and had to be completely rebuilt. EAI witness Brady Aldy addresses this storm and its impacts on the system in his direct testimony. In addition, less than three years ago, the state experienced a devastating winter storm that caused more than 190,000 customers to be without power and also caused severe damage to EAI's distribution and transmission facilities. EAI saw similar damage in the ice storm of 2009 and the back-to-back ice storms of 2000 and 2001. EAI must be vigilant to maintain its financial health to be in a position to respond to these weather events in order to provide expeditious, efficient, and safe storm restoration of its facilities.

Q. IN ADDITION TO ADDRESSING THESE CHALLENGES, IS EAI CONTINUING TO MAKE SIGNIFICANT INVESTMENTS TO IMPROVE RELIABILITY?

A. Yes. EAI has made significant investments in transmission and distribution facilities to improve reliability since its last rate case. For transmission, the Company added $113.2 million in capital additions between January 2014 through the end of the test year in this case (March 31, 2015) and expects to spend another $119.3 million by the end of the pro forma year in this case (March 31, 2016), for a total of $232.6 million. These improvements, which EAI considered to be non-discretionary, total 37 miles of new and upgraded transmission lines across the state to improve reliability and the construction and upgrading of 22 new and existing substations to provide additional load serving capability and increase reliability. As described in Ms. Montgomery's testimony, the improvements benefit customers by providing improved reliability, ensuring EAI customers continue to have access to low cost energy sources and supporting economic development opportunities in the state.

For distribution, the Company added $186.6 million in capital additions between January 2014 and the end of the test year in this case and expects to spend another $158.2 million by the end of the pro forma year in this case, for a total of $344.8 million. This is $577.4 million in combined transmission and distribution for the roughly two year period. As described in Mr. Aldy's testimony, EAI's distribution infrastructure investment required over 577,916 man-hours on over 7,758 distribution construction jobs in 2014 alone.

Q. WILL EAI'S INVESTMENT NEEDS TO SERVE ITS CUSTOMERS CONTINUE TO INCREASE IN THE FUTURE?

A. Yes, greater capital expenditures will be required to meet these challenges. In fact, excluding the capital investment for the acquisition of Ouachita and Hot Spring, EAI had an average annual capital expenditure of almost $339 million over the ten year period of 2004-2013. EAI projects an average annual capital expenditure of almost $538 million since rates were established in Docket No. 13-028-U through 2019. This excludes the acquisition of PB2 of the UPS. This amount represents a 72 percent increase in capital expenditures between those two time periods. The increase includes both distribution and transmission investment, environmental costs, critical infrastructure protection costs and transmission projects that are the result of planning decisions related to pre-MISO transmission planning as well as the MISO Transmission Expansion Planning ("MTEP") process. The forecasted period does not include any discretionary economic development capital investments as a result of the outcome of EAI's last rate case.

As I stated in Docket No. 13-028-U, EAI's capital expenditures for the 2012-2018 period were forecasted to be at their highest levels in history at $3.4 billon, a 32 percent increase above the previous seven-year period of 2005-2011.[8] That estimate has proven accurate directionally, unfortunately the latest seven year projection from 2013 –

[8] Docket No. 13-028-U, McDonald Direct at 32 (March 1, 2013).

2019 is even higher at $4.2 billion, a 63 percent increase from that same prior 2005-2011 seven-year period. This level of capital expenditures, the traditional historical test year regulatory framework which results in regulatory lag, as well as the cash flow harm from disallowances of reasonable and necessary costs decided in Order Nos. 21 and 35 has ensured EAI does not have a reasonable opportunity to earn its allowed return, even though that allowed return is one of the lowest in the country.

Q. WILL THE PROPOSED CHANGES IN THIS RATE CASE BETTER POSITION THE COMPANY TO ADDRESS THE CHALLENGES IT FACES?

A. Yes. The outcome of this rate case is pivotal for the Company in terms of positioning it for the future. First and foremost, the Company needs to recover in customer rates the appropriate level of expense EAI will incur on a prospective basis as well as an appropriate return on its investment. Additionally, the election to implement an FRP utilizing a forward test year will provide for more timely adjustments of rate levels, as necessary, thereby reducing lag and better matching rates to the events that are driving those changes.

Q. HOW ARE CUSTOMER EXPECTATIONS AND TECHNOLOGY DRIVING CHANGES AND INVESTMENTS IN UTILITIES?

A. Customer expectations today are vastly different from the expectations of the past. The advancement of mobile technology has enabled our customers to have real-time access to information literally at their fingertips. We know that a growing portion of our customer base is interacting with us through mobile devices. Customer interactions with other service providers such as retailers, health care and banking institutions as well as small scale service providers have advanced with the advent of user friendly, online/digital services. These services are setting our customers' expectations of us. Customers not only expect these online services, they demand them from all service providers. EAI has been investing in such technologies to deliver on customer expectations. As a result, EAI has received positive feedback from its customers via JD Power surveys where it has been among the top performers of all utilities in the nation regarding keeping customers informed about outages; percent of customers contacted after power restored; customer communications via electronic channel (email, text, social media and website); and handling customer service inquiries via online/email channels.

The Company is, therefore, focused on providing a customer service experience that is personalized, secure, proactive, and available in multiple digital channels. Investments in new digital technology would allow the Company to deliver the secure, intuitive, and reliable technology platforms our customers expect. The Company is evaluating digital improvements that will deliver customer transactions that are flexible, convenient, and effortless. In addition, the Company is evaluating technology that can provide proactive and on-demand personal usage and billing data that enables personalized and relevant value added services such as proactive usage and billing alerts that provide real time control of customers' electricity usage. The Company is also evaluating other programs that could benefit customers, such as prepay/partial payment options, and demand response programs.

III. OVERVIEW OF RATE REQUEST AND KEY COMPONENTS

Q. WHAT IS THE COMPANY REQUESTING IN THIS CASE?

A. The Company is requesting a base rate increase primarily associated with (1) capital investments since EAI's last rate case and through the pro forma year, including recovering through base rates the costs associated with the acquisition of PB2 of the UPS, as requested in Docket No. 14-118-U, and a fair return on those investments, (2) an increase in the annual storm reserve because of increased storm frequency and intensity, (3) increases to EAI's vegetation management program because of additional annual tree trimming and higher costs for that trimming, and (4) an increase in compensation costs and changes to how certain expenses are accounted for in EAI's rates. The cumulative effect of these, net of changes to certain cost recovery riders and the other factors set out below, is $167 million in new and additional revenue requested by EAI.

As Ms. Talkington explains in her direct testimony, the calculated base rate deficiency for this case is $268.4 million but is offset by wholesale revenues being credited to customers through the MISO Rider in the amount of $41.8 million. That amount is further offset by $20.7 million currently being collected in Rider CCR for the UPS PPA that will terminate with the acquisition of PB2 of UPS. Also at the time rates are effective, customers will be paying less under EAI's Production Cost Allocation Rider ("Rider PCA") in the order of $32.5 million. Lastly, the Lost Contribution to Fixed Cost ("LCFC") component of the Energy Efficiency Cost Recovery Rider tariff of $5.8 million will reset as the Company is reflecting the lower sales in this case, and that along with other revenue equals an additional $6.4 million offset. The Table below shows the total base rate deficiency request, and the offsetting adjustments just described and the net, new revenues resulting from this case.

Table 1
New Revenue Deficiency, Net of Offsetting Adjustments

Revenue Requirement Deficiency	268.4
Net MISO Rider Revenue	(41.8)
Net Rider CCR (Union PPA)	(20.7)
Net Rider PCA change	(32.5)
Net LCFC, AFC, and Exc. Rev.	(6.4)
Subtotal	(101.4)
Net New Revenue	167

A. Drivers

Q. WHAT ARE THE PRIMARY DRIVERS OF THE REVENUE DEFICIENCY?

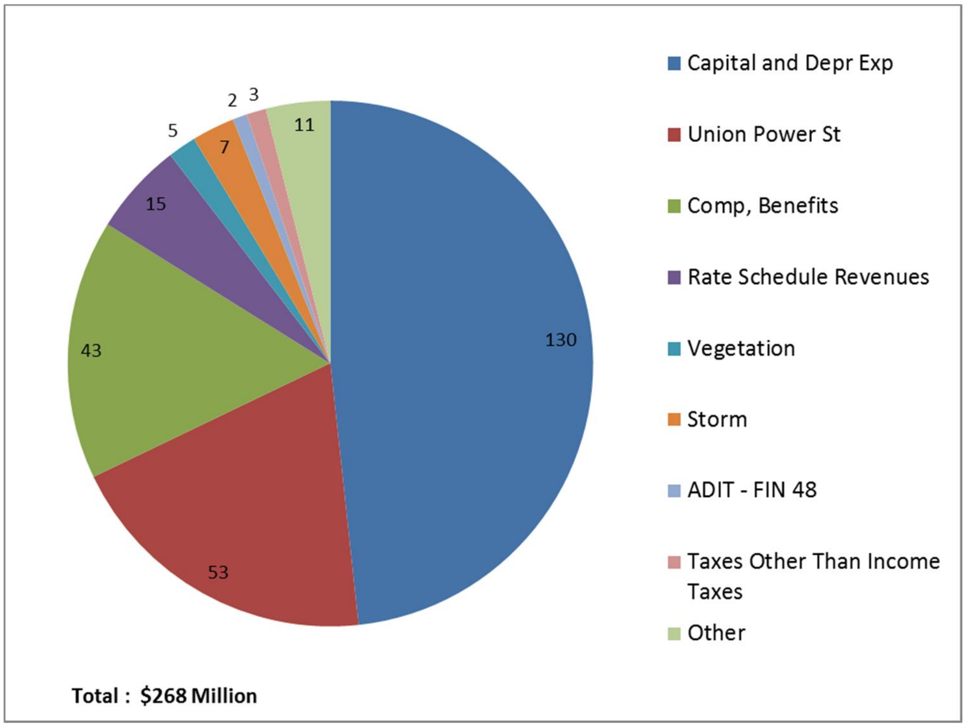
A. The primary need for new revenue is driven by the investment the Company has made in new generation, transmission, and distribution facilities and an increase in its costs to operate the utility since its last base rate case in 2013. EAI's net investment in facilities has increased $1 billion since base rates were last set based on 2012-2013 figures. Of this increase, $237 million relates to the UPS acquisition.

In addition, the Company's expenses have increased. Non-Fuel Operations and Maintenance Expenses, which include pensions and benefits, have gone up $86 million. Increases in depreciation and amortization of $44 million are driven by the investment in new facilities I described above. An increase in EAI's Return on Rate Base, $79 million, is driven in part by increases in new facilities already in service and additions that will be completed before this case ends. Taxes Other Than Income Taxes show a $4.9 million increase. In addition, EAI is seeking an increase to its storm damage reserve of $7 million and an increase in vegetation management costs of $4.7 million. Finally, rate schedule revenue was $15 million less than the rate schedule revenue requirement resulting from Docket 13-028-U. Ms. Talkington, Ms. Laney and Mr.

Zakrzewski address the change in the Company's costs and revenues since its last rate proceeding in more detail in their direct testimonies.

Although the Company's costs have increased since its last rate case, the majority of costs driving the need for a base rate increase are related to capital investments that have been put in service since EAI's last rate case, including EAI's proposed acquisition of PB 2 of the UPS in Docket No. 14-118-U. The Figure below demonstrates the key components of the rate increase in relation to one another with almost three quarters related to investment:

Figure 2
Rate Case Key Drivers



B. Modifications

Q. IS EAI MODIFYING ITS PRIOR REQUESTS FOR RECOVERY OF INCENTIVE COMPENSATION COSTS IN THIS PROCEEDING?

A. Yes. EAI is requesting recovery of 100 percent of short term annual incentive compensation costs, as it has in the past, but in this case the Company is not requesting recovery of equity-based long term incentive compensation costs.

Q. WHY IS EAI FOREGOING RECOVERY OF EQUITY-BASED LONG-TERM INCENTIVE COMPENSATION COSTS IN THIS PROCEEDING?

A. While EAI maintains that the costs for these programs are reasonable, market-competitive, and prudently incurred and are also necessary to attract, motivate, and retain talented employees and as a result should be recoverable from customers, EAI has made a policy decision not to seek recovery of these costs at this time. EAI witness Gregory R. Zakrzewski explains in his direct testimony the specific adjustment to these items from the cost-of-service study.

As Ms. Raeder explains in her direct testimony, the Entergy Compensation Plan provides a reasonable level of total compensation expense, using compensation components that are comparable to those utilized by other utilities and general industries, which allows EAI to attract and retain qualified, competent employees. This comparison includes long-term incentive compensation costs. However, I have decided that the cost of these equity-based long term incentive programs should be removed from test year expense in this case and will evaluate whether to seek recovery of these costs in future cases. While equity-based long term incentives meet every standard for recovery, i.e., they are reasonable, necessary to retain talented employees in order to provide utility service, and prudent, I determined that EAI would not seek recovery of those costs in this case. I view this concession as a non-precedential one, and it is intended to streamline the case.

C. Act 725 - FRP

Q. ASIDE FROM RECOVERING INVESTMENT AND COST INCREASES, ARE THERE OTHER FACTORS DRIVING THE NEED FOR EAI TO FILE A RATE CASE NOW?

A. Yes. There are three additional factors related to implementation of Act 725. First, EAI is providing notice that it elects to implement a formula rate plan pursuant to Act 725 and is presenting its proposed FRP tariff for approval in this case. Second, EAI is updating its cost allocation and rate design methodology, pursuant to Act 725, to implement key policy initiatives. Finally, EAI is seeking an increase in its authorized ROE to provide investors with a return on their investment that it is competitive with other vertically-integrated electric utilities in the region. A competitive ROE is necessary to allow the Company to attract the capital to invest in needed infrastructure and to enable EAI to invest aggressively in discretionary capital projects to be a productive partner in recruiting economic development prospects to the state, something that was made difficult as a result of the outcome of Docket No. 13-028-U.[9]

Q. PLEASE EXPLAIN EAI'S DECISION TO ELECT TO IMPLEMENT A FORMULA RATE PLAN PURSUANT TO ACT 725 OF 2015?

[9] Prior to Docket No. 13-028-U, EAI was awarded a 10.2 ROE. It was under that structure that EAI was able to assist the state's efforts to recruit Arkansas' most recent large industrial prospect, Big River Steel, L.L.C. ("BRS").

A. As described previously, implementing a formula rate plan, such as the FRP proposed in this case, will benefit both the customer and the Company by moving to a more streamlined rate review process, subject to a +/- 50 basis point bandwidth around the ROE established in this case and a four percent cap by rate class on any annual revenue increase or decrease, which heretofore has not existed. For the Company, EAI forecasts continued significant investment to serve its customers, increasing expenses, and absent BRS, relatively flat sales growth. The traditional rate case model, combined with the use of an historical test year would perpetuate a cycle of continual rate case filings resulting in rate requests approximately every 2-3 years with very “lumpy” rate impacts that complicate customers’ ability to plan for future power need expenses. These factors produce regulatory lag and all but ensures EAI could never earn its allowed return.

Consistent with my testimony in Docket No. 13-028-U,[10] this is exactly what has happened in 2014 and is projected to occur again in 2015. EAI’s book ROE in 2014 was 6.46 percent and is projected to be less than five percent in 2015. In addition, as described by EAI witness Ellen Lapson, Order Nos. 21 and 35 also contributed to Moody’s decision to effectively reduce EAI’s credit rating relative to its peers, an event that rarely occurs in the industry. As explained by Ms. Lapson, currently 77 percent of 185 Moody’s issuer credit ratings of U.S utilities are higher than

[10] Docket No. 13-028-U, McDonald Direct at 29-33.

EAI's credit rating. Additionally, prominent securities analysts have also published reports critical of the cost disallowances and low ROE set by Order No. 21. As EAI witness Ms. Lapson references in her direct testimony, one report pointed out that EAI, an integrated electric utility subject to Arkansas regulation, bears greater risk than a delivery-only utility, but was awarded the same ROE as Consolidated Edison Company of New York State, which is a delivery only utility.[11]

These facts cannot be disputed. In order to maintain the necessary level of investment to support economic development prospects in Arkansas, EAI must achieve a more favorable regulatory outcome. Without a favorable regulatory environment in Arkansas, it would make more financial sense for Entergy Corporation to invest its discretionary capital in other jurisdictions where it can attract capital at a lower cost and it can invest that capital in infrastructure that will produce a more reasonable return.

Having an FRP with a future test year will allow the Company to better align costs and rates and is a step towards aligning the interests of the utility and its stakeholders, which would further demonstrate a favorable regulatory environment and afford EAI the ability to continue to invest. The customer will have the benefit of more stable rate adjustments, avoiding the sharp increases that occur by waiting several years and filing a new case as well as being in a position to benefit from

[11] Lapson Direct at 18.

the increased sales volumes EAI will have a greater chance of attracting with a more solid recovery plan to operate within. Mr. Lewis describes the benefits of an FRP to both the customer and the Company in his direct testimony.

D. <u>Act 725 – Cost Allocation</u>

Q. PLEASE DESCRIBE THE PRODUCTION COST ALLOCATION METHODOLOGY EAI IS PROPOSING IN THIS CASE.

A. EAI is proposing to allocate production costs using the A&E 4 CP cost allocation methodology rather than the Energy and Peak ("E&P") or average and peak ("A&P") methodology it has proposed in its more recent rate case applications.

Q. WHY IS EAI MODIFYING THE METHODOLOGY IT HAS PROPOSED IN PRIOR CASES?

A. Modifying its previous cost allocation methodology from A&P to A&E 4 CP is consistent with the goals of Act 725. As described in Ms. Talkington's testimony, EAI supports this change because A&E 4 CP provides a reasonable balance between two primary costing concerns, contribution to the system peak and energy requirements. Moreover, as Mr. Maulden describes, providing competitive energy costs for large industrial customers is a key factor in attracting and retaining economic development prospects to Arkansas, and the A&E 4CP cost allocation methodology keeps industrial rates competitive with the region and nation.

E. ROE

Q. WHAT IS EAI'S CURRENT AUTHORIZED ROE?

A. In EAI's last rate case, the Company was awarded a 9.3 percent ROE, which at the time was the lowest non-penalty ROE awarded in the country to a vertically integrated electric utility. On rehearing, the Commission increased EAI's authorized ROE from 9.3 percent to 9.5 percent.[12] The 9.5 percent ROE remains among the lowest non-penalty ROEs in the country for vertically integrated electric utilities. As Ms. Lapson explains, the current ROE of 9.5 percent is one of the four lowest ROE determinations over the past eight quarters for integrated electric utilities in state jurisdictions.[13]

Q. WHAT IS THE RETURN ON EQUITY EAI IS REQUESTING IN THIS CASE?

A. EAI is requesting an ROE of 10.2 percent.

Q. WHY IS EAI'S CURRENT ALLOWED ROE INSUFFICIENT?

[12] Docket No. 13-028-U, Order No. 35 at 16 (August 15, 2014).
[13] Lapson Direct at 34.

A. First and foremost, the law dictates that a public utility is entitled to a rate of return that is commensurate with returns on investment in other enterprises having corresponding risks and that is sufficient to assure confidence in the financial integrity of the Company, so as to maintain its credit and to attract capital.[14] EAI's currently authorized return accomplishes none of these goals. With the significant capital investment the Company is facing, other utilities with the same characteristics will have an easier time accessing capital at lower rates than EAI if its low-end 9.5 percent ROE is not increased in a manner that puts EAI on a level playing field with peer utilities.

Q. DID ACT 725 ADDRESS ROE?

A. Yes, Act 725 provided guidance on the types of evidence that can be submitted by a party in a rate case and considered by the Commission in setting a utility's authorized return. As evidenced by EAI's last rate case and the evidence presented in this case by EAI witness Bruce H. Fairchild and Ms. Lapson, and as recognized by the General Assembly, over-reliance on the mechanical application of a single method for setting ROE has the potential to produce substandard results, especially in the current, artificially-suppressed capital market. A utility with a substandard authorized ROE is at a disadvantage as compared to other utilities in

[14] Bluefield Water Works & Improvement Co. v. Public Serv. Comm'n, 262 U.S. 679, 43 S.Ct. 675 (U.S. 1923); Federal Power Comm'n v. Hope Natural Gas Co., 320 U.S. 591, 64 S. Ct. 281 (U.S. 1944).

competing for capital. The General Assembly concluded that other considerations should be presented for consideration in setting the ROE rather than over-reliance on a singular model that ignores market trends and public policy. These factors range from quantitative analysis based on widely accepted methodologies to current market data, qualitative data, comparable risks, and commentary from the investment community. As reflected in the testimony in this case, EAI addressed the expansion of evidentiary considerations codified in Act 725. Based on the multitude of factors supported by its witnesses, the Company believes setting the ROE at 10.2 percent, coupled with recovery of prudently incurred costs, will ensure EAI is given the opportunity to earn a fair and reasonable rate of return, commensurate with the risk attendant to its business, and to position the Company to continue to attract the capital necessary to fund the infrastructure to provide reliable service to its customers and do its part in promoting economic development and job growth in the state.

F. Creditworthiness

Q. IS ROE THE ONLY FACTOR IN DETERMINING WHETHER THE COMPANY CAN ACCESS CAPITAL ON REASONABLE TERMS?

A. No. A Company's creditworthiness is also a key factor in determining whether it can access capital on reasonable terms. The lower a utility's credit rating, the riskier the investment is for an investor. The riskier the investment, the more costly it is to attract capital and the fewer the investors that are willing to risk their capital. Higher risk means a higher cost of capital which means higher costs to customers and persistently so.

Q. DOES ACT 725 INCLUDE MECHANISMS THAT WOULD HELP ADDRESS EAI'S CREDITWORTHINESS?

A. Yes. Act 725 permits the Company to implement an FRP with a forward test year. This alternative ratemaking mechanism combined with a forward looking test year and other considerations of evidence used to set an ROE contribute to a more favorable regulatory environment and have the potential to impact EAI's credit rating positively. As explained by Ms. Lapson, credit rating agencies have already affirmed the benefits of such a regulatory environment in response to the passage of Act 725.[15]

Q. WITH THE FAVORABLE REACTION BY CREDIT RATING AGENCIES OF ACT 725, CAN EAI NOW INVEST ITS CAPITAL IN ARKANSAS TO SUPPORT THE STATE'S GROWTH AND DEVELOPMENT?

A. While Act 725 was a positive step by the General Assembly, it's premature at this time for EAI to deploy its capital consistent with its capability prior to Docket No. 13-028-U.

Q. PLEASE EXPLAIN.

[15] Lapson Direct at 23-24.

A. Clarity on a several items needs to occur. First, the actual determination of the FRP and ROE in this case and the appropriate balancing of customer and owner interests will certainly be an indicator of the Company's ability to invest capital in Arkansas to support economic development.

Second, the Company's ability to recover its reasonable and necessary costs is just as important as the FRP and ROE in determining if its credit rating will actually improve and will be in a position to have a realistic opportunity to earn its authorized ROE. For example, having one, the FRP with a reasonable ROE, but not the other, the allowance of reasonable and necessary costs to operate the utility, will still hamper EAI's ability to meet the needs of all its stakeholders.

Notwithstanding the obstacles since the beginning of 2014, EAI has responded in its customer's best interest and invested $1 billion net of depreciation in required generation, transmission and distribution investments and now seeks to do even more in Arkansas. This case contemplates the addition of 495 MW of low cost, efficient and clean generation capacity, the Company has also recently announced the largest solar facility in Arkansas to prepare for the future, it has constructed and upgraded transmission and distribution lines and substations to improve reliability and ensure customers have access to low cost energy, and equally important is that this case seeks to position EAI to be a strong and vital partner in growing Arkansas consistent with the General Assembly and gubernatorial economic development priorities as laid out in Act 725. EAI can't accomplish all this without the approval of this Application.

G. <u>Tariff Changes</u>

Q. PLEASE DESCRIBE THE TARIFF CHANGES EAI HAS REQUESTED IN THIS CASE?

A. EAI has proposed minimal tariff changes and policy schedule updates in this case as compared to previous cases. Those changes are primarily described by Mr. Aldy in his direct testimony and include changes to the Company's street lighting tariffs to update and better describe the fixtures offered by the Company, an update to the Company's Miscellaneous Fees to reflect the cost to provide those services, an update to the Company's Extension of Facilities Policy to remove transformer costs from the costs of the estimated investment, and two new policy changes to the Company's Pick-a-Date Plan and Budget Billing Plan in order to help customers better manage their electric bills. In addition, Mr. Maulden sponsors both a modification to Rate Schedule 32, which is EAI's Economic Development Rider ("Rider EDR"), and a new tariff, known as the Economic Redevelopment Rider ("Rider ERDR").

For Rider EDR, EAI is proposing to increase the annual incentives by 5 percent a year. This change would provide a 50 percent reduction in billed demand in year one as opposed to the current 45 percent. In addition, the Company is proposing a modification that would allow the customer the option to receive the incentive via the current tiered approach or via a levelized approach. EAI would provide the customer the new option of accepting a 30 percent reduction each year until the expiration of the incentive at the end of the fifth year. EAI believes this change will complement the Arkansas Economic Development Commission's overall incentive package and better position Arkansas to grow job opportunities.

Likewise, Rider ERDR is a new tariff aimed at partnering with local communities to encourage economic development by incenting small businesses, sometimes start-up businesses, to locate in unoccupied buildings within Arkansas communities and thereby increase utilization of existing EAI electric infrastructure as well as other utility infrastructure, such as water, wastewater, roads and natural gas. Rider ERDR will be available to customers (1) who locate in unoccupied buildings in EAI's service territory and (2) whose net monthly billing demand is anticipated to be greater than or equal to 150 kW and less than or equal to 500 kW and who take service under Rate Schedules SGS, LGS, or GST. For the small businesses who meet the above criteria, their monthly billed demand would be reduced by 25 percent for a period of 24 months.

IV. RATE IMPACTS

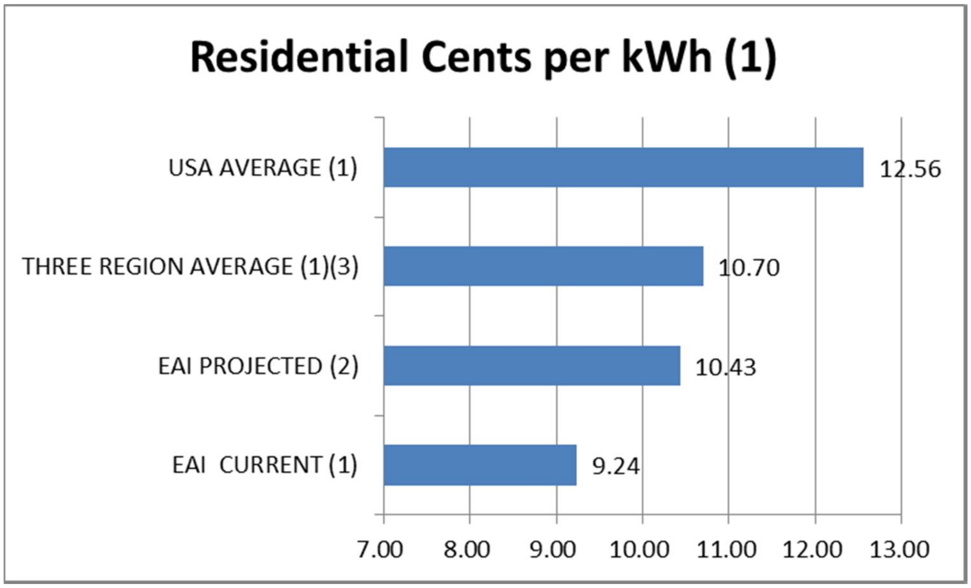
Q. WHAT IS THE OVERALL IMPACT ON A TYPICAL RESIDENTIAL CUSTOMER'S BILL THAT WOULD RESULT FROM THE BASE RATE INCREASE IN THIS CASE?

A. The impact to a typical monthly residential bill for a customer using 1,000 kWh is a net increase of $13.77 or a 13.16 percent increase.

Q. HOW DOES THAT IMPACT COMPARE TO THE REGIONAL AND NATIONAL AVERAGE?

A. For residential customers, rates resulting from this case effective March 2016, will remain below the regional and national average, based upon Edison Electric Institute typical bill for June 2014 comparisons.

Chart 2
Comparison of Residential Rates



(1) Per EEI, EEI Typical Bills and Average Rates Report Summer 2014 (Twelve Months Ended June 2014)
(2) Result of multiplying the reported $0.0924 times the total residential revenue class deficiency percentage
(3) As defined by EEI, East South Central, West South Central and South Atlantic regions

Q. HOW DO THE PROPOSED RATES FOR COMMERCIAL AND INDUSTRIAL CUSTOMERS COMPARE TO THE REGIONAL AND NATIONAL AVERAGES?

A. As explained by Mr. Maulden, EAI's current rates for commercial and industrial customers are competitive with the regional and national averages. Mr. Maulden further explains that, by implementing the cost allocation and rate design consistent with Act 725, the Company's commercial and industrial rates remain in the same relative position with the regional and national averages, enabling Arkansas to stay competitive as compared to other states actively recruiting economic development prospects to the state.

V. WITNESSES

Q. PLEASE PROVIDE AN OVERVIEW OF THE OTHER DIRECT TESTIMONIES FILED IN THIS CASE.

A. The following individuals are providing testimony on these topics:

1. Kurtis W. Castleberry, Director, Resource Planning and Market Operations, who discusses EAI's resource planning and operations issues in the case:

- The investment by EAI at the White Bluff and the ISES related to compliance with Mercury and Air Toxics Standards;
- Resource planning and operations support services provided by the System Planning and Operations Organization to EAI and whether there is a need to issue a Request for Proposals seeking proposals from third parties to provide these services.
- The anticipated operating profile for EAI's CCGTs for purposes of projecting the anticipated costs associated with the Long-Term Service Agreements associated with those generating plants and the appropriate recovery mechanism to support recovery of those costs, with the Company proposing an approach similar to the one it recommended in Docket No. 14-118-U;

- Potential additions to EAI's portfolio of generating assets, including the Company's proposed acquisition of PB 2 at UPS, which is also the subject of Docket No. 14-118-U, and a proposed PPA for a renewable resource, and the cost recovery issues associated with the resource, which is the subject of Docket No. 15-014-U; and
- EAI's recently completed analysis of the benefits it has realized from the first full year of operations in the Midcontinent Independent System Operator, Inc. ("MISO").

2. Jay A. Lewis, Vice President, Regulatory Policy, ESI, who describes EAI's proposed FRP and how it is consistent with legislation recently passed in Arkansas. Mr. Lewis also describes how the proposed FRP would work in conjunction with other tariffs and its energy efficiency recovery mechanism, in particular the recovery of LCFCs. In addition, Mr. Lewis addresses how the Company's proposed FRP addresses the future addition of load due to BRS. Lastly, Mr. Lewis addresses the Company's proposal regarding AFUDC.
3. Myra L. Talkington, Manager, Regulatory Filings for ESI, who
   - presents the results of the Company's cost-of-service study based upon a test year that is the period of six months historical ending September 30, 2014 and six months projected ending March 31, 2015;
   - supports the development of customer class allocation factors that were used in the Company's cost-of-service study;

- supports the development of base rate sales revenue, the development of the proposed rate design, and the tariff sheets reflecting the proposed rate design;
- explains the revenue requirement calculations and provides an overview of the tariff changes and rate effects proposed in this case; and
- supports the Company's request for Rate Schedule No. 44, EAI's proposed Rider FRP.

4. Gregory R. Zakrzewski, Manager Quality Assurance and Review for ESI, who supports certain test year financial information used in preparing the Company's cost-of-service study. Specifically, Mr. Zakrzewski presents the Company's capital structure and embedded cost of capital calculations as shown in EAI Direct Exhibit GRZ-1. He also presents the test year accounting data which includes rate base and operating expenses and which will serve as the starting point in preparing the cost-of-service study. He also sponsors certain pro forma adjustments to these test year amounts and explains why these adjustments are appropriate. Finally, he describes the accounting and regulatory requirements for the creation of a regulatory asset associated with the Company's request that the APSC approve regulatory asset treatment for certain costs associated with expenses incurred at ANO.

5. Ina P. Laney, Regulatory Project Coordinator, Regulatory Filings, ESI, who supports certain test year financial information used in preparing the

Company's cost-of-service study. Specifically, Ms. Laney sponsors certain pro forma adjustments to the test year accounting data, which includes rate base and operating expenses and explains why these adjustments are appropriate.

6. Eric Fox, Director, Forecast Solutions, Itron, Inc., who discusses and supports the weather normalization methodology and resulting rate class normalized sales and peak demand adjustment factors used in this rate case;

7. Bruce H. Fairchild, principal at Financial Concepts and Applications, Inc., who recommends a fair return on common equity for EAI;

8. S. Brady Aldy, Vice President, Customer Service for EAI, who describes the investments the Company has made and expects to make in distribution and related facilities. Second, he describes the weather events that occurred in 2013 and 2014, the resulting damage to the Company's facilities as a result of those events, and the Company's efforts to restore service to its customers. Mr. Aldy's testimony also provides support for (a) EAI's request for a 10 year amortization of the storm costs associated with 2013 and 2014 service restoration efforts that exceed the normal level of service restoration costs allowed for recovery through EAI's base rates; and (b) EAI's request to increase the storm reserve to the current five-year average storm expense amount. Third, Mr. Aldy will explain EAI's vegetation management program for distribution lines and provide support for a $4.66 million adjustment to test year

expense because of increased contract prices for this work and to reflect certain changes that have been made to the number of line miles trimmed annually by EAI. Fourth, Mr. Aldy explains the benefits customers receive from its membership in trade industry associations. Fifth, Mr. Aldy supports and adjustment to test year payroll expense because of a strategic initiative for the meter service work group within his organization. Finally, Mr. Aldy supports proposed changes to the following tariffs and policies:

- Rate Schedule No. 10, Municipal Street Lighting Service;
- Rate Schedule No. 12, All Night Outdoor Lighting Service;
- Rate Schedule No. 21, Municipal Shielded Street Lighting Service;
- Rate Schedule No. 29, Charges Related to Customer Activity;
- Rate Schedule No. 60, Extension of Facilities Policy;
- Policy Schedule No. 1, Pick a Date Plan;
- Policy Schedule No. 2, Budget Billing Plan;
- Policy Schedule No. 13.3, Agreement for Electric Service; and
- Policy Schedule No. 13.12, Agreement for interruptible Service.

9. Michael A. Krupa, Director – Fukushima Project, ESI, who addresses EAI's compliance with the Fukushima Orders and related NRC requests for information. Mr. Krupa also addresses the costs associated with the Flood Barrier Restoration efforts at ANO.

10. Jennifer A. Raeder, Vice President, Human Resources – Total Rewards for ESI, who describes EAI's compensation related costs, including

compensation program, design, and elements of the program and how EAI's compensation program design is consistent with the electric utility industry and that its total level of compensation is at the median of peer companies. Ms. Raeder also explains why it is necessary for EAI to have a compensation program that is comparable to that of other utilities and the market and how such a program is beneficial to customers. Finally, Ms. Raeder explains recent changes to supplemental retirement benefits programs offered by EAI and the other Entergy Companies.

11. James I. Warren, member of the law firm of Miller & Chevalier Chartered, who supports two particular aspects of the Company's treatment of income taxes in its filing in this proceeding. The first is its treatment of Financial Accounting Standards Board Interpretation No. 48 amount, that is, the amount of its tax liability it has been determined is likely currently owed to the taxing authorities. The second is the treatment of the tax deduction allowed under Section 199 of the Internal Revenue Code and its implications for the Revenue Conversion Factor. Finally, Mr. Warren addressed the issue of whether or not accumulated deferred income taxes can be specifically associated with specific assets and liabilities or whether, instead, they are fungible.

12. Michael L. Maulden, Director, Business and Economic Development, who will describe EAI's Business and Economic Development organization and the role it plays in promoting economic development and job growth in the state. He also addresses the proposed changes to the current Rider EDR

and the addition of Rider ERDR. Finally, Mr. Maulden describes how EAI's proposed cost allocation methodology and rate design changes will be beneficial to economic development and the promotion of employment opportunities in the state.

13. Melinda K. Montgomery, Manager of Transmission Planning for EAI, who provides a brief overview of the transmission planning, demonstrating the large growth in transmission investment EAI has made over the last several years. Ms. Montgomery also describes how that growth will continue into the future, and she provides a description of the capital additions included in the Company's total Net Transmission Plant In Service.

14. Ellen Lapson, Principal, Lapson Advisory, who discusses investment analysts' view of the financial standing of EAI. Specifically, Ms. Lapson offers analysis and draws conclusions from several investment analyst and rating agency reports that describe how the analysts and rating agencies reacted unfavorably to the combined effect of APSC Orders No. 21 and 35 in Docket No. 13-028-U on EAI's financial strength, including the unusually low allowed ROE as well as regulatory accounting methods, disallowances, and adjustments that weakened EAI's operating cash flow. In addition to reactions to the ROE granted in Order No. 21, Ms. Lapson also addresses subsequent reactions to Order No. 35 and to the cumulative effect of Order Nos. 21 and 35, which are adversely affecting EAI's ability to earn the APSC-determined ROE and to produce the cash

flow needed to maintain and improve EAI's financial integrity during a period of high capital expenditures on needed electric infrastructure.

15. Mark. W. Woodby, Vice President, Engineering and Technical Services, EOI, who addresses the costs for dues payments EAI makes to support research and development activities for the Electric Power Research Institute ("EPRI") and those of the Nuclear Energy Institute ("NEI") and demonstrates that EAI's support of EPRI and NEI provides tangible savings and benefits to EAI's customers. Mr. Woodby also addresses benefits to EAI and its customers through dues paid to participate in programs and services provided by the Institute of Nuclear Power Operations.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

CERTIFICATE OF SERVICE

I, Laura R. Landreaux, 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 24th day of April, 2015.

/s/ Laura R. Landreaux
Laura R. Landreaux