BEFORE THE
ARKANSAS PUBLIC SERVICE COMMISSION

IN THE MATTER OF AN INVESTIGATION OF ENTERGY ARKANSAS, INC.'S MARCH 2006 ENERGY COST RECOVERY RIDER ANNUAL UPDATE	)	DOCKET NO. 06-055-U
IN THE MATTER OF AN INVESTIGATION INTO ENTERGY ARKANSAS, INC.'S INTERIM REVISION TO ITS ENERGY COST RECOVERY RIDER	)	DOCKET NO. 05-116-U

SUPPLEMENTAL TESTIMONY

OF

THOMAS D. CROWLEY

PRESIDENT

L. E. PEABODY & ASSOCIATES, INC.

ON BEHALF OF

ENTERGY ARKANSAS, INC.

OCTOBER 16, 2008

I. BACKGROUND AND INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Thomas D. Crowley. My business address is 1501 Duke Street, Suite 200, Alexandria, VA 22314-3449.

[redacted]

A. EAI requested that I provide supplemental testimony on two issues relating to the matters that have been under review by the Commission in this proceeding. First, I will address EAI's inventory levels during the relevant review period. Second, I will explain the economic analysis and risk analysis that I conducted to assign a value to the settlement that EAI and Entergy Services, Inc. ("ESI") recently reached with the Union Pacific Railroad Company ("UP") in connection with its litigation of service-related disputes in *Entergy Arkansas Inc. and Entergy Services, Inc. v. Union Pacific Railroad Company,* Case No. CV2006-2711 (Circuit Court of Pulaski County, Arkansas) (the "Court Case").

Q. BEFORE TURNING TO THESE ISSUES, PLEASE EXPLAIN YOUR ROLE IN CONNECTION WITH THE UP LITIGATION.

A. I was one of the expert witnesses who provided support to EAI and ESI in that litigation. In that role, I prepared expert reports and provided deposition testimony relating to a variety of issues including calculation of delivery shortfalls, transportation logistics, and coal inventory practices.

II. EAI'S INVENTORY PRACTICES

Q. ARE YOU FAMILIAR WITH THE COMMISSION'S ORDER NO. 14 ISSUED JANUARY 16, 2007 IN THIS PROCEEDING?

A. Yes.

Q. HAVE YOU REVIEWED THE COMMISSION'S FINDING THAT "THE COMPANY'S FAILURE TO MAINTAIN A 45-DAY COAL SUPPLY GOING INTO THE SUMMER OF 2005 WAS IMPRUDENT . . .?"[1]

A. Yes.

Q. IN THE COURSE OF YOUR WORK IN THE UP LITIGATION DID YOU REVIEW THE FACTUAL BASIS FOR THE COMMISSION'S FINDINGS?

A. Yes, I did. Not surprisingly, UP's expert on coal inventory seized upon the Commission's finding with regard to the 45-days and attempted to use this finding to limit UP's responsibility for the increased costs that EAI experienced in 2005 and 2006 as a result of UP's inadequate coal transportation service.

Q. DID YOU DISCOVER A FLAW IN THE COMMISSION'S FINDINGS?

---

[1] Docket No. 05-116-U, Order No. 14 and Docket No. 06-055-U, Order No. 10 (the "Orders") at 26.

A. Yes. I determined that the burn rates used by the Commission in reaching its conclusions in the Orders were not the same as the burn rates that were used in initially establishing the 45-day standard.

Q. PLEASE EXPLAIN.

A. The 45-day standard that the Commission relied upon was established in a proceeding in 1996 relating to the Company's application to revise its rates to its retail customers in Docket No. 96-360-U. The 45-day inventory number represented the amount of inventory that EAI was allowed to include in its rate base for cost of service determination. Upon my review of the record of that case, I determined that in developing the amount of coal inventory to allow in EAI's rate base in Docket No. 96-360-U, the APSC Staff relied upon the average daily burn at EAI's coal plants, White Bluff and Independence Steam Electric Stations ("White Bluff" and "ISES" respectively). This fact was confirmed by the following testimony of APSC witness Richard McDowell:

> In response to a Staff Interrogatory, APSC-198, the Company provided the average daily burn amounts which were required to fire each of the plants. I calculated the appropriate amounts of inventory at each location necessary to fuel the plants for forty-five days, a generally accepted

> number of days for funding working capital, and reduced each respective balance to that level.[2]

A copy of Mr. McDowell's pertinent testimony is attached hereto as EAI Exhibit TDC-5. In other words, the 45-day standard adopted by the APSC in 1997 was designed to allow EAI to include in its rate base inventory levels based upon average daily fuel consumption at White Bluff and ISES, EAI's coal generating stations.

Q. HOW DO THE AVERAGE BURN RATES USED IN 1996 COMPARE TO THE BURN RATES USED BY THE COMMISSION TO EVALUATE EAI'S INVENTORY LEVELS GOING INTO 2005?

A. The average burn rates that were used in 1996 are significantly *below* the burn rates that EAI uses in its current policy. As reflected in EAI Exhibit TDC-6, the combined average daily burn during the 1995 test-year for the two Arkansas coal plants that was recommended by the Staff and ultimately reflected in a cost of service study approved by the APSC in 1997 totaled 33,118 tons. Based on the average daily consumption during the 1995 test-year, the 45-day target inventory level authorized by the APSC equates to 1.49 million tons of coal.

In considering EAI's inventory levels going into 2005, the Commission reviewed EAI's then-current inventory practices. In my

[2] Docket No. 96-360-U, Prepared Testimony of G. Richard McDowell at 6.

review of these practices in the UP litigation, I determined that the burn rates used for setting target inventory levels in the period reviewed by the Commission in this proceeding was 20,000 tons per day at both White Bluff and ISES. This produces an assumed burn rate of 40,000 tons per day for both plants, or roughly 7,000 tons per day more burn. Based on this data, the Commission concluded that 45-days of inventory equated to 1.8 million tons.

Q. DID THE COMMISSION'S USE OF DIFFERENT BURN RATES IN ITS ANALYSIS IN 2007 THAT DIFFERED FROM THE BURN RATES USED IN DOCKET NO. 96-360-U TO ESTABLISH THE 45-DAY STANDARD IMPACT THE COMMISSION'S FINDINGS?

A. Yes, I believe that the use of two different burn rates resulted in a disconnect that led to the erroneous conclusion that EAI had not maintained a 45-day coal supply going into 2005.

Q. PLEASE EXPLAIN THE DISCONNECT?

A. When the consistent daily burn rates of 33,118 tons per day are used to evaluate whether EAI had maintained a 45-day coal supply, the analysis shows that EAI was at or above the 45-day standard in most years. As I show in EAI Exhibit TDC-7, when the correct burn rates of 33,118 tons per day are used, EAI was above the 45-day benchmark in three of the five years that I studied and had an overall average of 44-days of inventory for the two coal generating stations combined. This one-day deviation from the 45-day mark is easily explained given UP's delivery shortfalls that EAI was attempting to deal with and reflects the efforts that EAI had employed to manage its stockpile in a manner that would minimize the railroad-related disruptions. I have reviewed these shortfalls and calculated that the difference between what EAI declared in the years 2000-2004 exceeded UP's deliveries by approximately 400,000 tons, as shown in Highly Sensitive <u>EAI Exhibit TDC-8</u>. This equates to 10.9 days of coal inventory at the two Arkansas coal plants. Accordingly, it is clear that the minor deviation from the 45-day target was attributable to the UP shortfalls.

Q. BEFORE MAY 2005 WHEN UP CLAIMED A FORCE MAJEURE EVENT RELATED TO THE DERAILMENTS IN THE POWDER RIVER BASIN

[redacted]

A. If the maximum potential burn rate of 43,000 tons per day is utilized, the April 2005 inventory equated to 36 days. (1,562,269 tons divided by 43,000 tons per day).

Q. HOW MANY DAYS OF COAL INVENTORY DID EAI HAVE IN HAND, BASED ON THE AVERAGE DAILY BURN?

A. The average daily burn from the 1995 study year equaled 33,118 tons per day. Based on this average daily burn rate, EAI's April 2005 inventory equated to 47 days (1,562,269 tons divided by 33,118 tons per day).

Q. BASED ON THE ABOVE INVENTORY CALCULATIONS, DID EAI HAVE AN INVENTORY SHORTFALL IN APRIL 2005 PRIOR TO UP CLAIMING A FORCE MAJEURE EVENT?

A. No. Based on the average daily burn utilized to set the 45 day inventory target, EAI did not have an inventory deficit in April 2005 prior to UP's claim of Force Majeure.

Q. IN YOUR OPINION, DID EAI MAINTAIN A 45-DAY COAL SUPPLY GOING INTO 2005?

A. Yes, it did. Based on the information that I have reviewed it is clear that EAI maintained its inventory in a manner that was consistent with Commission targets when the proper burn rate assumptions are utilized.

Q. IN YOUR OPINION, WHAT IS THE APPROPRIATE BURN RATE TO [redacted]

A. To the extent the Commission's review related to whether EAI was complying with the 45-day standard, the proper burn rate for the analysis would have been the average burn rate. The fact that EAI was using a higher burn rate assumption for its internal inventory policy does not contradict the prudence of its actions in maintaining a 45-day inventory under the burn rate assumptions that were used to establish that standard. The use of the higher burn rate for the internal policy reflects a conservative approach that suggests that EAI was planning inventory based on peak burns. In my experience, it is more common for utilities and Commissions to view inventory levels based on average daily burn rates. The use of other metrics (such as maximum burn rates, or peak burn rates) is sometimes utilized by utilities that are attempting to build an additional cushion into their stockpiles.

III. <u>MUTUAL RELEASE AND SETTLEMENT AGREEMENT</u>

Q. ARE YOU AWARE THAT EAI SETTLED THE COURT CASE AGAINST UP?

A. Yes.

Q. ARE YOU FAMILIAR WITH THE TERMS OF THAT SETTLEMENT?

A. Yes. I am aware of the terms of the Mutual Release and Settlement Agreement (the "Settlement Agreement."). Generally, EAI settled the litigation [redacted]

Q. DID YOU PREPARE AN ECONOMIC EVALUATION OF THE TERMS OF THE SETTLEMENT AGREEMENT?

A. I did.

Q. CAN YOU SUMMARIZE YOUR CONCLUSIONS RELATING TO THE ECONOMIC VALUE OF THE SETTLEMENT AGREEMENT?

A. I have determined that the net present value of the total settlement is [redacted], as shown in Highly Sensitive <u>EAI Exhibit TDC-10</u>.

Q. CAN YOU SUMMARIZE THE KEY BENEFITS THAT EAI OBTAINED IN THE SETTLEMENT AGREEMENT?

A. [redacted]

Q. WITH REGARD TO YOUR FIRST POINT, HOW DID THE [redacted]

A. [redacted]

Q. PLEASE EXPLAIN HOW YOU ASSESSED THE VALUE OF THE [redacted]?

A. [redacted]

[redacted]

Q. PLEASE EXPLAIN HOW YOU ASSESSED THE VALUE OF THE [redacted]

A. [redacted]

[redacted]

Q. IN YOUR OPINION, DID THE SETTLEMENT AGREEMENT ADEQUATELY COMPENSATE EAI FOR ITS LOSSES RELATED TO THE UP SERVICE SHORTFALLS?

A. Yes. [redacted]

[redacted]

IV. SUMMARY AND CONCLUSION

Q. WILL YOU PLEASE SUMMARIZE YOUR SUPPLEMENTAL TESTIMONY?

A. Yes. The key points of my supplemental testimony are as follows:

- When EAI's inventory levels are measured using the same burn rate that the Commission relied upon in establishing the 45-day standard in Docket No. 96-360-U, EAI's inventory levels were not deficient.
- The settlement of the UP Litigation has substantial value to EAI and its retail customers. [redacted]

Q. DOES THIS CONCLUDE YOUR SUPPLEMENTAL TESTIMONY?

A. Yes, it does.

CERTIFICATE OF SERVICE

I, Steven K. Strickland, do hereby certify that a copy of the foregoing has been served upon all parties of record this 16th day of October 2008.

Steven K. Strickland

BEFORE THE
ARKANSAS PUBLIC SERVICE COMMISSION

IN THE MATTER OF AN INVESTIGATION OF ENTERGY ARKANSAS, INC.'S MARCH 2006 ENERGY COST RECOVERY RIDER ANNUAL UPDATE	))))	DOCKET NO. 06-055-U
IN THE MATTER OF AN INVESTIGATION INTO ENTERGY ARKANSAS, INC.'S INTERIM REVISION TO ITS ENERGY COST RECOVERY RIDER	))))	DOCKET NO. 05-116-U

EAI EXHIBIT TDC-5

PREPARED TESTIMONY
OF
G. RICHARD MCDOWELL CPA
PUBLIC UTILITY AUDIT SUPERVISOR

ON BEHALF OF THE STAFF OF THE
ARKANSAS PUBLIC SERVICE COMMISSION

JULY 31, 1997

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 SERVICES	)	DOCKET NO. 96-360-U
	)	

PREPARED TESTIMONY

OF

G. RICHARD MCDOWELL CPA
PUBLIC UTILITY AUDIT SUPERVISOR

ON BEHALF OF THE STAFF OF THE
ARKANSAS PUBLIC SERVICE COMMISSION

JULY 31, 1997

Q. Please state your name and business address.

A. My name is G. Richard McDowell and my business address is Arkansas Public Service Commission (APSC or Commission), 1000 Center Street, Little Rock, Arkansas 72201.

Q. What is your position and related educational training and experience?

A. I am a Public Utility Audit Supervisor employed by the Commission Staff (Staff). I graduated from Arkansas Tech University in 1969 with a Bachelor of Science degree in accounting. I have completed post-graduate work at the University of Central Arkansas in the areas of finance and accounting. I received my certificate to practice as a Certified Public Accountant in the State of Arkansas in 1973, and was awarded the designation of Certified Government Financial Manager (CGFM) by the Association of Government Accountants in December, 1996. Prior to joining the APSC Staff, I practiced in public accounting for fifteen years, during which time I provided income tax planning and compliance services, as well as cost accounting systems installation and analysis. I also conducted audits of the accounts of various entities, including public utilities. Since joining the Staff in 1990, I have completed a number of regulatory training programs, including the 1990 NARUC Annual Regulatory Studies Program sponsored by the National Association of Regulatory Commissioners and Institute of Public Utilities of the Graduate School of Business Administration, Michigan State University. I have filed testimony numerous times before this Commission, and have considerable experience on the particular issues which I am addressing in this proceeding. A list of the regulatory proceedings in which I have filed testimony or offered comments is provided in Attachment GRM-1.

PURPOSE OF TESTIMONY

Q. What is the purpose of the testimony that you are presenting in this Docket?

A. I am presenting testimony in support of adjustments made to Entergy Arkansas, Inc.'s (EAI or Company) working capital assets and current, accrued, and other liabilities, as presented by the Company in its application, to be utilized in the Modified Balance Sheet Approach (MBSA), the method used by Staff to establish the working capital requirement. Additionally, I will present testimony which will establish the proper level of accumulated deferred income taxes, at the end of the pro forma year, and the applicable current and deferred federal and state income tax expense for that period.

MODIFIED BALANCE SHEET APPROACH

Q. Please explain your determination of the Company's working capital requirement.

A. I have used the Modified Balance Sheet Approach (MBSA) to determine working capital. The Commission ordered the use of the MBSA, either in the absence of a lead-lag study or as a check on a lead-lag study filed by a utility, in Order No. 7 of Arkansas Power and Light Company Docket No. 84-199-U. Since that time, the Staff has utilized the MBSA to determine working capital in its evaluation of rate case filings with continued acceptance by the Commission. Moreover, the use of the MBSA to determine working capital was upheld by the Arkansas Court of Appeals and the Arkansas Supreme Court. See, General Telephone Co. of the Southwest v. Arkansas Public Service Commission, 23 Ark. App. 73, 744 S.W.2d 392 (1988), aff'd., 295 Ark. 595, 751 S.W.2d 1 (1988), and General Waterworks Company of Pine Bluff v. Arkansas Public Service Commission, 25 Ark. App. 49, 752 S.W.2d 52 (1988). EAI generally follows this methodology in its application.

Q. Please describe the MBSA.

A. This method calls for assets, other than plant, which are not interest bearing and not considered elsewhere in the cost of service, to be included in the rate base. These assets would include those necessary to provide utility service, and a return that will supplement working capital should be allowed on these assets. Additionally, all current, accrued, and other liabilities which are a source of funds to the utility should be included in the Company's capital structure at their appropriate cost.

Q. Would you explain why it is appropriate to include these liabilities in the capital structure?

A. Yes. The rationale for including liabilities in the capital structure is that all liabilities are sources of funds used to finance the assets of a company. This methodology is based on the basic theory of fungibility. Because liabilities represent sources of funds and because funds by definition are fungible (i.e., the distinction cannot be made as to which source is financing a particular asset), current, accrued and other liabilities should be placed in the capital structure along with all other funding sources.

The concept of fungibility of funds has long been accepted by this Commission as appropriate treatment for the largest liability on the balance sheet, long-term debt. And all elements involved in a calculation of a company's cost of capital must be given consistent treatment. See

Southwestern Bell Telephone Company v. Arkansas Public Service Commission, 24 Ark. App. 142, 751 S.W.2d 8 (1988). Therefore, Staff has included all funding sources (including zero cost liabilities) in the capital structure.

WORKING CAPITAL ASSETS

Q. Mr. McDowell, how did the Company categorize and present working capital assets in its application?

A. In its application, Fuel Inventory, Materials and Supplies, Prepayments, a deferred charge for Steam Generator Chemical Cleaning, Investment in System Fuels, Inc., Severance Costs related to employee work force reductions, and the remaining asset accounts were listed as separate line items. I will comment on the proper levels of these accounts to be included in the rate base.

Q. How did the Company calculate the balances of working capital assets in its application?

A. The Company included in rate base an adjusted total of working capital assets for all line items which was computed using thirteen-month averages for the test year. In general, the thirteen-month averages compared favorably with the asset balances per the General Ledger. However, in some instances certain accounts were adjusted or were in need of adjustment because of material fluctuations in the balances, or for other reasons.

Q. Mr. McDowell, please discuss the Fuel Inventory balances included by the Company in the application.

A. As presented in EAI's application, the inventory consists of the sum of the thirteen-month averages of the direct and related coal costs for both the White Bluff and Independence (ISES) plants and a nominal balance for nuclear fuel. The balances in the coal inventory, which have been included, are allocated amounts representing EAI's 57% and 15.75% ownership in White Bluff and ISES, respectively.

Q. After reviewing the information provided by the Company, did you find that these accounts needed any adjustment before being included in Staff's working capital assets?

A. Yes. In response to a Staff interrogatory, APSC-198, the Company provided the average daily burn amounts which were required to fire each of the plants. I calculated the appropriate amounts of inventory at each location necessary to fuel the plants for forty-five days, a generally accepted number of days for funding working capital, and reduced each respective balance to that level. This resulted in a cumulative reduction of $6,468,000, which produces an acceptable inventories level and is reflected in Staff Exhibit ADW-3, page 1 of 13, Adjustment No. RB-3.

Q. Mr. McDowell, please explain your adjustments to accounts for non-recurring balances in the Company's working capital assets.

A. Account No. 134000, "Other Special Deposits," essentially carried a zero average balance through October in the test year, with various debit and credit monthly balances for those ten months. However, in November of 1995, $118 million was charged to the account for a temporary, non-recurring purpose, producing a thirteen-month average in the account of $9,422,479. This amount has not been included in Staff's working capital assets, as reflected in ADW-3, page 1 of 13, Adjustment No.RB-5.

Q. Mr. McDowell, in your examination of the accounts included as working capital assets by the Company, did you note any charges which you believe were not necessary for the provision of utility service?

A. Yes. I noted that Account Nos. 142014 and 142102, with balances of $2,369,930 and $1,096,795, respectively, are accounts receivables which relate solely to wholesale activity. Therefore, I removed them from Staff's working capital assets. Additionally, Account Nos. 146002 and 171001 with balances of $49,316 and $225,650 are interest receivable accounts which reflect accrued interest earned through money pool transactions which are not utility related. I have also removed those accounts.

Q. Mr. McDowell, did you make any other adjustments to working capital assets as filed in the Company's application?

A. Yes. Included in each month-end calculation of Accrued Unbilled Revenues (Account No. 173000) was an amount which represented wholesale activity. The average monthly amount of those sales was $4,548,750, which has been removed from the thirteen-month average of Accrued Unbilled Revenues.

Q. Did you review the Company's various Materials & Supplies and Prepaid Assets accounts?

A. I reviewed each individual account which was included in those account groups as a portion of working capital assets. I did not find any need for adjustment and have included them in Staff's working capital assets.

Q. Mr. McDowell, please summarize Staff's adjustment to working capital assets.

A. Staff's adjustment to include working capital assets of $246,538,000 is reflected in Staff Exhibit ADW-3, page 1 of 13, as Adjustment No. RB-5.

INVESTMENT IN SFI - STEAM GENERATOR CLEANING

Q. Please explain Staff adjustment RB-4, included in Staff Exhibit ADW-3, page 1 of 13.

A. Staff adjustment RB-4 increases rate base to include EAI's investment in its subsidiary System Fuels, Inc (SFI). EAI and its sister Entergy operating companies established SFI in order to realize savings from the volume purchase of fuel necessary to supply the needs of the Entergy operating companies. The Commission in Docket No. U-2672 allowed EAI to increase its rate base for the average amount of investment in SFI, as long as, EAI could provide annual evidence that the investment was to the benefit of Arkansas ratepayers. EAI has filed in Docket No. 86-033-A the annual evidence as required in the Commission Order. Rate base is increased in the amount of $11,001,000. The Company has included the same adjustment in its application.

Q. Please describe Staff adjustment RB-6.

A. Staff Adjustment RB-6 adjusts the balance for Steam Generator Chemical Cleaning costs to the balance per the Company's books at the end of the adjusted test year, $7,803,414, a known and measurable amount.

CURRENT, ACCRUED, AND OTHER LIABILITIES

Q. Mr. McDowell, did you provide Staff witness Donna Gray with the proper balances of current, accrued, and other liabilities for inclusion in the capital structure?

A. Yes, I did.

Q. How have you treated current, accrued, and other liabilities?

A. I have reviewed each account in this category and have determined that there is no cost associated with any of these amounts. The total of these accounts has been included in the capital structure by Ms. Gray at zero cost.

In its application, on Schedule D-6, the Company listed liability account balances which totaled $2,090,979,112, including $1,798,157,229, the amount of the Company's total Long-term debt, ADIT, and Customer Deposits combined. The remaining portion of the total, $292,821,883, represents Current, Accrued, and Other Liabilities. The original thirteen-month average total of this class of liabilities was $299,227,617, however the Company reduced this total in the application by $6,405,734 to recognize a change in accounting methods which will reduce certain nuclear related liabilities.

Q. Do you agree with this adjustment made by the Company?

A. Yes. I believe that this adjustment is appropriate.

Q. Mr. McDowell, did you adjust the remaining balances so they would be representative of the daily average for each account?

A. Yes. I complied with the guidelines prescribed in Order No. 7 of Docket No. 84-199-U, wherein the Commission stated:

> Staff must examine the asset and liability averages to insure that the average of month-end balances represents the annual average in the accounts.

The rationale for these changes is that these items represent a material portion of current, accrued, and other liabilities and an understatement of these amounts could substantially misstate the resulting computations of cost of capital.

Q. Please identify your adjustments to the remaining accounts.

A. Intercompany accounts payable are normally settled on the 20th of the month following the provision of goods and services. After a review of each account involved, where proper, I adjusted the liability averages for the additional five days lag in payment from the 15th day of the service month to the 20th day of the subsequent month.

Similarly, an adjustment was calculated to account for the zero-cost lag in payment of ad valorem taxes. These property taxes are assessed at the beginning of one year but are paid in installments the following year. Interest and dividends payable accounts were examined and adjusted to reflect the proper balances considering the period between the time dividends are declared or interest is due and the dates of payment. Federal and state income taxes and other current and accrued liabilities were reviewed and adjusted as necessary to reflect the proper zero-cost liability.

After making the necessary adjustments explained above, I concluded that these liability averages, totaling $314,432,451 as computed and adjusted, should be included in the capital structure at zero cost. That amount is reflected in Staff Exhibit DG-13.

CURRENT AND DEFERRED INCOME TAXES

Q. Mr. McDowell, please explain your treatment of Accumulated Deferred Income Tax (ADIT).

A. ADIT is a cost free source of funds because the balances in the accounts represent the cumulative income taxes, both federal and state, on which the Company defers payment in accordance with applicable tax laws, even though customers pay the full amount of income taxes on a timely basis through the established rates. These amounts are properly considered liabilities payable in future periods and as such are included in the capital structure at their actual cost, which is zero, to the utility.

Q. Mr. McDowell, how does the Company's deferred income tax situation differ from other utility companies' treatment of the issue by this Commission?

A. Deferred income taxes are calculated based on the type and amount of timing differences (i.e., the contrast between the periods when income or expense is recognized for accounting or income tax purposes) as of a given date utilizing the accounting procedure known as normalization. Alternatively, the accounting method whereby a timing difference is not normalized and is allowed to reduce current income taxes is known as the flow-through method. Usually, Staff, after reviewing the nature and impact of the timing differences in existence in the test year, has employed a combination of flow-through and normalization to establish the proper level of deferred income taxes. However, in Docket No. 81-144-U, this Commission directed the Company to flow-through all timing differences which do not relate to depreciation.

Q. Did you adjust the account balances for ADIT as stated by the Company in the application?

A. No. After review of the Company's deferred income tax calculations and verification of the nature of the timing differences considered, I accepted the level of Accumulated Deferred Income Taxes presented by the Company in its application, $475,165,687, as reflected in Staff's capital structure in Staff Exhibit DG-13.

Q. Mr. McDowell, please explain Adjustment IS-11(A).

A. This adjustment synchronizes the interest, or "fixed charges," amount used in the income tax calculation with Staff's adjusted rate base. The company, in its Adjustment 2, utilized the same methodology for synchronization purposes with its proposed rate base.

Q. Please explain Adjustment Is-11(B).

A. This adjustment recognizes, for current and deferred income tax purposes, the effect of Staff's proposed increase in book depreciation rates. It is similar to the Company's Adjustment 3, using staff's depreciation level instead of the Company's level.

Q. Please explain Adjustment IS-11(C).

A. This adjustment includes an annual amount of SFAS 106 - Post Retirement Benefits Other Than Pension Cost (SFAS 106 Cost) and amortization of the estimated deferred SFAS 106 Cost as of the midpoint of the adjusted test year. This adjustment is the same as the company's Adjustment 8.

Q. Please explain Adjustment IS-11(D).

A. This adjustment eliminates severance costs recorded by the Company in the test year and recognizes an amortization of total severance costs over five years. This adjustment is the same as the Company's Adjustment 10.

Q. Mr. McDowell, are there any other income tax related calculations in this case for which you are responsible?

A. Yes. I have provided to Staff Witness Alice Wright the estimated current and deferred state and federal income tax expenses which are included in Staff Exhibit ADW-6. My computations assume the same level of timing differences, for purposes of calculating deferred income tax, as were in existence at the end of the adjusted test year.

Q. Does this conclude your testimony?

A. Yes, it does.

ENTERGY ARKANSAS, INC.
DOCKET NO. 96-360-U
STAFF ATTACHMENT GRM-1
PAGE 1 OF 1

LISTING OF PROCEEDINGS IN WHICH G. RICHARD MCDOWELL
HAS FILED TESTIMONY OR OFFERED COMMENTS
AS OF JULY 31, 1997

Docket No.	Company	Issue
90-048-U	General Waterworks of Pine Bluff	MBSA, Income Taxes
90-214-U	Empire District Electric, Inc.	MBSA, Income Taxes
91-093-U	Arkla Energy Resources Corp.	MBSA, Income Taxes
91-242-U	Arkansas Oklahoma Gas Co.	Expenses, Income Taxes
92-032-U	Arkansas Louisiana Gas Co.	MBSA, Income Taxes
92-260-U	Southwestern Bell Telephone Co.	MBSA, Income Taxes
94-169-U	Southwestern Bell Telephone Co.	MBSA, Income Taxes
93-081-U	Arkansas Louisiana Gas Co.	Expenses, Income Taxes
93-326-U	Shumaker Public Service Co.	MBSA, Income Taxes
94-175-U	Arkansas Louisiana Gas Co.	MBSA, Income Taxes

CERTIFICATE OF SERVICE

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 31st day of July, 1997.

Glenna Hooks (acting)
Jan Sanders
Secretary of the Commission

BEFORE THE
ARKANSAS PUBLIC SERVICE COMMISSION

IN THE MATTER OF AN INVESTIGATION OF ENTERGY ARKANSAS, INC.'S MARCH 2006 ENERGY COST RECOVERY RIDER ANNUAL UPDATE	))))	DOCKET NO. 06-055-U
IN THE MATTER OF AN INVESTIGATION INTO ENTERGY ARKANSAS, INC.'S INTERIM REVISION TO ITS ENERGY COST RECOVERY RIDER	))))	DOCKET NO. 05-116-U

EAI EXHIBIT TDC-6

1995 INDEPENDENCE AND WHITE BLUFF GENERATING STATIONS
AVERAGE DAILY BURN AND 45-DAY INVENTORY LEVELS

1995 INDEPENDENCE AND WHITE BLUFF GENERATING STATIONS AVERAGE DAILY BURN AND 45-DAY INVENTORY LEVELS

Item (1)	Independence Generating Station (2)	White Bluff Generating Station (3)	Combined Generating Station (4)
1. Aggregate Coal Burn 1/	5,748,895	6,339,286	12,088,181
2. Average Daily Coal Burn 2/	15,750	17,368	33,118
3. 45-Day Inventory Level 3/	708,768	781,556	1,490,324

1/ Source: EIA Form 790. EIA Form 790 was a monthly form submitted by each operating utility that identified total tons consumed by fuel type. It has been replaced by EIA Form 920.

2/ Line 1 ÷ 365 days per year.

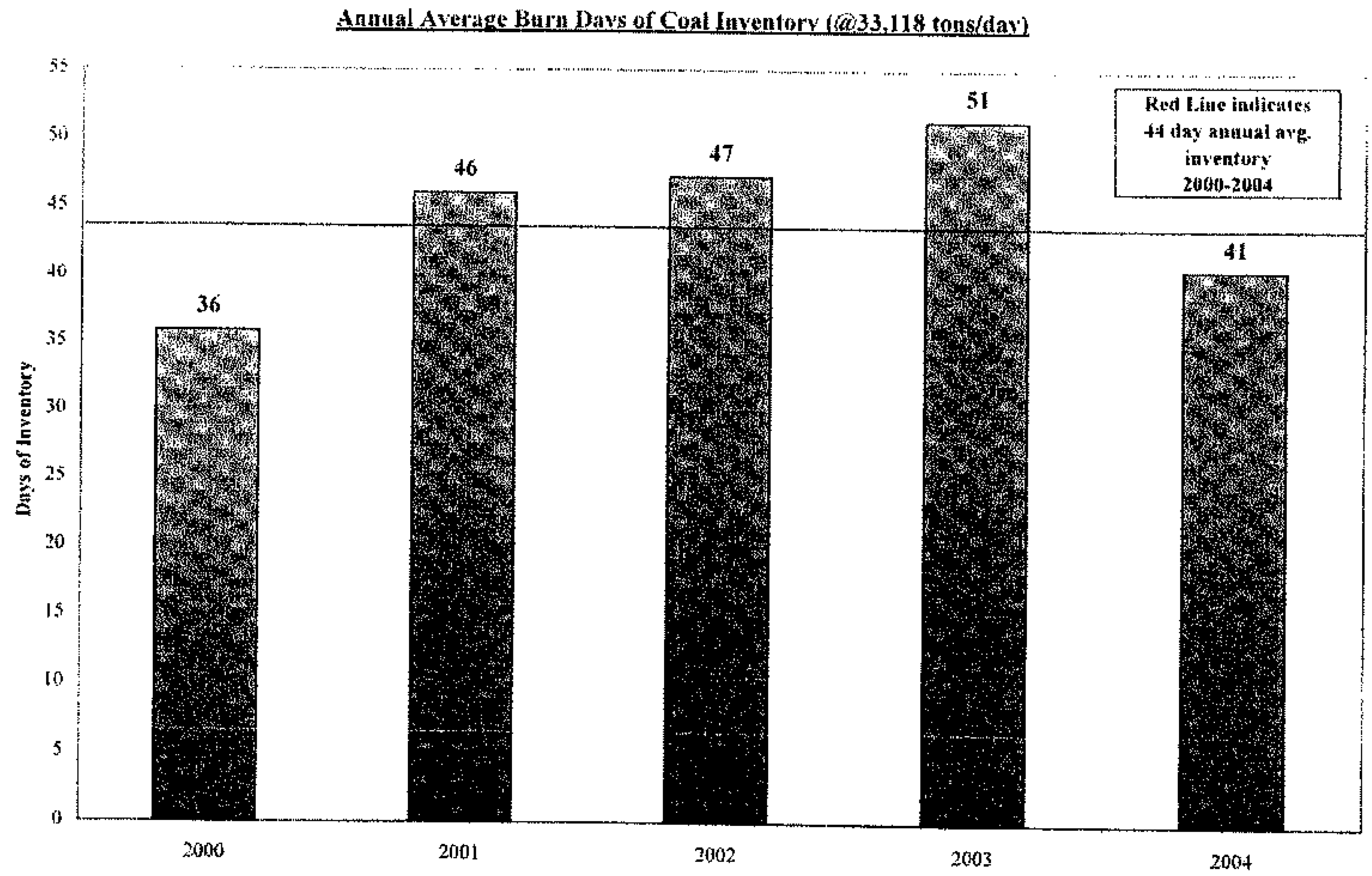
3/ Line 2 x 45 days.

BEFORE THE
ARKANSAS PUBLIC SERVICE COMMISSION

IN THE MATTER OF AN INVESTIGATION OF ENTERGY ARKANSAS, INC.'S MARCH 2006 ENERGY COST RECOVERY RIDER ANNUAL UPDATE	))))	DOCKET NO. 06-055-U
IN THE MATTER OF AN INVESTIGATION INTO ENTERGY ARKANSAS, INC.'S INTERIM REVISION TO ITS ENERGY COST RECOVERY RIDER	))))	DOCKET NO. 05-116-U

EAI EXHIBIT TDC-7

ANNUAL AVERAGE BURN DAYS
OF COAL INVENTORY (@ 33,118 TONS/DAY)


Annual Average Burn Days of Coal Inventory (@33,118 tons/day)
Days of Inventory
55
50
45
40
35
30
25
20
15
10
5
0
36
46
47
51
41
2000
2001
2002
2003
2004
Red Line indicates
44 day annual avg.
inventory
2000-2004

BEFORE THE
ARKANSAS PUBLIC SERVICE COMMISSION

IN THE MATTER OF AN INVESTIGATION OF ENTERGY ARKANSAS, INC.'S MARCH 2006 ENERGY COST RECOVERY RIDER ANNUAL UPDATE	))))	DOCKET NO. 06-055-U
IN THE MATTER OF AN INVESTIGATION INTO ENTERGY ARKANSAS, INC.'S INTERIM REVISION TO ITS ENERGY COST RECOVERY RIDER	))))	DOCKET NO. 05-116-U

EAI EXHIBIT TDC-8

DIFFERENCES BETWEEN ENTERGY DECLARATIONS AND
UP DELIVERIES TO WHITE BLUFF AND INDEPENDENCE PLANTS

THIS EXHIBIT CONTAINS HIGHLY SENSITIVE PROTECTED INFORMATION
PROVIDED PURSUANT TO THE INTERIM PROTECTIVE ORDER NO. 3 IN
APSC DOCKET 05-116-U.

BEFORE THE
ARKANSAS PUBLIC SERVICE COMMISSION

IN THE MATTER OF AN INVESTIGATION OF ENTERGY ARKANSAS, INC.'S MARCH 2006 ENERGY COST RECOVERY RIDER ANNUAL UPDATE	))))	DOCKET NO. 06-055-U
IN THE MATTER OF AN INVESTIGATION INTO ENTERGY ARKANSAS, INC.'S INTERIM REVISION TO ITS ENERGY COST RECOVERY RIDER	))))	DOCKET NO. 05-116-U

EAI EXHIBIT TDC-9

RESPONSE TO APSC 1-9 ADDENDUM 1

THIS EXHIBIT CONTAINS HIGHLY SENSITIVE PROTECTED INFORMATION PROVIDED PURSUANT TO THE INTERIM PROTECTIVE ORDER NO. 3 IN APSC DOCKET 05-116-U.

APSC DOCKET 05-116-U.
BEFORE THE
ARKANSAS PUBLIC SERVICE COMMISSION

IN THE MATTER OF AN INVESTIGATION OF ENTERGY ARKANSAS, INC.'S MARCH 2006 ENERGY COST RECOVERY RIDER ANNUAL UPDATE	))))	DOCKET NO. 06-055-U
IN THE MATTER OF AN INVESTIGATION INTO ENTERGY ARKANSAS, INC.'S	))	DOCKET NO. 05-116-U