BEFORE THE

LOUISIANA PUBLIC SERVICE COMMISSION

APPLICATION OF ENTERGY LOUISIANA, LLC FOR APPROVAL OF REGULATORY BLUEPRINT NECESSARY FOR COMPANY TO STRENGTHEN THE ELECTRIC GRID FOR STATE OF LOUISIANA	))))))	DOCKET NO. U-_____

DIRECT TESTIMONY

OF

RYAN E. O'MALLEY

ON BEHALF OF

ENTERGY LOUISIANA, LLC

PUBLIC REDACTED VERSION

AUGUST 2023

TABLE OF CONTENTS

EXHIBIT LIST

Exhibit REO-1	Moody's Investors Service, Moody's Upgrades Certain Entergy Subsidiaries, Outlooks Stable (January 31, 2014)

I. INTRODUCTION AND BACKGROUND

Q1. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Ryan E. O'Malley. I am employed by Entergy Services, LLC as the Controller of Utility Operations Accounting. My business address is 639 Loyola Avenue, New Orleans, LA 70113.

Q2. ON WHOSE BEHALF ARE YOU TESTIFYING?

A. I am testifying before the Louisiana Public Service Commission (the "LPSC" or "Commission") on behalf of Entergy Louisiana, LLC ("ELL" or the "Company").[1]

Q3. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND.

A. I have a Bachelor of Science degree in Business Administration with a major in Accounting from Louisiana State University (Baton Rouge). I am a Certified Public Accountant. Prior to my employment with ELL, I worked for Deloitte & Touche, LLP ("Deloitte") for approximately nine years in the firm's Audit and Enterprise Risk Services practice, rising to the position of Senior Manager. I began my career with Entergy Services, LLC ("ESL") in 2018 as a Senior Staff Accountant in Accounting Policy, was promoted to Manager of Fuel Accounting in October of 2018, and

[1] On October 1, 2015, pursuant to Commission Order No. U-33244-A, Entergy Gulf States Louisiana, LLC ("Legacy EGSL") and Entergy Louisiana, LLC ("Legacy ELL") combined substantially all of their respective assets and liabilities into a single operating company, Entergy Louisiana Power, LLC, which subsequently changed its name to Entergy Louisiana, LLC ("ELL"). Upon consummation of the business combination, ELL became the public utility that is subject to LPSC regulation and is the successor of Legacy EGSL and Legacy ELL.

subsequently became Manager of Accounting Policy in September of 2019. I became the Director of Finance for ELL in June of 2022 and was promoted to my current position in July of 2023.

Q4. HAVE YOU TESTIFIED BEFORE A REGULATORY COMMISSION PREVIOUSLY?

A. Yes, I have provided written testimony before the Public Utility Commission of Texas in Docket Number 51997. My testimony addressed the manner in which Entergy Texas, Inc. accounts for storm restoration costs.

II. PURPOSE OF TESTIMONY

Q5. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. My testimony supports the Company's Application requesting implementation of a regulatory blueprint to support significant investments in the strength of the electric grid in Louisiana. Strengthening the grid benefits both current customers by improving reliability, adding resilience to lower the damage from severe weather events and speed up restoration times, and to support the economic development that is occurring in our State. My testimony speaks to the level of investment necessary to fulfill this purpose and discusses the regulatory framework necessary to make the Company's goal of strengthening the grid in this manner achievable. Specifically, I explain that the continuation of a constructive regulatory environment is critical to maintaining ELL's creditworthiness and enabling it to make needed investments to achieve the purposes Mr. Phillip May and other witnesses describe. Maintaining ELL's creditworthiness

will allow ELL to attract both debt and equity investors at favorable rates that, in turn, keep ELL's cost of capital low for the benefit of customers. Maintaining ELL's creditworthiness is especially important now as ELL is in the midst of a wide-ranging effort to modernize and improve its infrastructure to meet the Commission's and customers' expectations, work that will extend throughout the coming decade. In recent years, ELL has focused on modernizing its transmission and distribution infrastructure. The Commission has supported this work through the Transmission Recovery Mechanism ("TRM") and the Distribution Recovery Mechanism ("DRM") in the Formula Rate Plan ("FRP") because of the significant level of associated investment. These creative, tailored ratemaking mechanisms make this work possible, and ELL must continue this work to ensure reliable and resilient service for customers.

But customers' needs do not stop there. As Company witness Laura Beauchamp explains, ELL has identified emerging capacity and energy needs and intends to meet these needs with clean energy resources to help customers meet their own sustainability goals. Satisfying these needs would permit ELL to play an important role in economic development in the state of Louisiana, as Mr. May and Ms. Beauchamp discuss. Meeting these needs is likely to involve a combination of power purchase agreements ("PPAs") and owned renewable and non-renewable resources and substantial investment in new transmission projects.

In addition, stakeholders – customers and investors – want and need ELL to mitigate storm restoration costs and the duration of storm outages, and ELL has asked the Commission to approve the first phase of the Resilience Plan ("Resilience Plan")

with a cost in the billions.[2] Additionally, ELL will face cash-flow headwinds – some known, such as the Inflation Reduction Act and the imminent expiration of certain property tax exemptions – and must have the financial integrity and support to withstand these known and other unknown, and perhaps severe, headwinds.

The Company seeks a continued supportive regulatory environment so that it can satisfy the needs described above, successfully navigate various headwinds, and maintain its creditworthiness. ELL will not pursue a financial plan that involves over-reliance on debt and exposes ELL to deterioration of its financial condition and results in higher capital costs for customers. Accordingly, the Company requests that the Commission take constructive ratemaking steps to mitigate regulatory lag and support cash flow so that customer needs can be met when expected. Otherwise, the only practical options are to prioritize certain projects and delay others which will likely fall short of meeting customer expectations.

Supportive steps in this rate case would include, but are not limited to, continuing current tailored ratemaking mechanisms and adopting certain new ones as follows:

- Approval of a just and reasonable return on equity ("ROE") that reflects ELL's financial condition and risk profile;
- Approval of a new FRP that is structured to give ELL a reasonable opportunity to earn its authorized ROE;

[2] LPSC Docket No. U-36625 ("Resilience Plan Docket").

- Approval of a ratemaking treatment that preserves cash flow for Inflation Reduction Act tax effects;
- Approval of new depreciation rates that return capital to ELL on a timely basis; and
- Approval of the shift of trust funding from the River Bend decommissioning trust to the Waterford 3 decommissioning trust without changing the current combined decommissioning revenue requirement.

I also support the basis for Adjustment AJ35 - Plant Transfers. The adjustment includes in rate base the actual plant closings from January 1, 2023 through March 31, 2023 and projected plant closings through August 31, 2024. The projected plant closings are informed by the Company's planning process, which I describe in my testimony. I also summarize the major projects driving the plant closings reflected in the adjustment.

Finally, I support ELL's request to increase the storm reserve accrual from $5.6 million to $12.4 million per year and to recover over ten years minor storm costs currently recorded in the storm reserve. Such an increase will permit the recovery of storm restoration costs from less severe storms on a timely basis and help to preserve the storm escrow account for use after major hurricanes, winter storms, and other severe weather events.

III. CREDITWORTHINESS AND THE REGULATORY ENVIRONMENT

Q6. HAS THE COMMISSION PROVIDED A CONSTRUCTIVE REGULATORY ENVIRONMENT FOR ELL THAT HAS HELPED MAINTAIN ITS FINANCIAL CONDITION?

A. Generally yes, although some of the features of ELL's current FRP have resulted in its earning well below its allowed ROE. Today, significant concerns exist regarding ELL's financial future and its efforts to meet the expectations of the Commission and its customers. ELL is in a substantial capital investment cycle that is benefiting customers and, more broadly, the communities ELL serves. Now is not the time to upend the regulatory environment and imperil ELL's creditworthiness, which is already under pressure not only from ELL's customer-focused capital investments but also risks and events beyond ELL's control including the increasing frequency and severity of hurricanes, winter storms, and other severe weather events in Louisiana. Rather, the Company asks that the Commission foster a constructive regulatory environment that provides the cash flow necessary for ELL to execute needed capital projects, deliver benefits to the state, and keep rates low for customers, as it has done for many years.

Q7. WHAT IS THE COMPANY'S COMMITMENT TO OWNERS AND DEBT HOLDERS, WHICH FUND ITS CAPITAL PROJECTS?

A. ELL's commitment to its owners and debt holders takes several forms: to spend capital in a way that protects and preserves that investment in the provision of public service, to meet owner expectations of an annual cash return on that investment (i.e., dividends),

to earn a just and reasonable rate of return on the capital invested, to make timely interest payments and satisfy principal repayment obligations, to maintain the creditworthiness of the Company and assure the adequate attraction of capital to meet future business needs, and to maintain ELL's financial flexibility and strength. These commitments ensure that ELL can attract the investment necessary to continue its ability to maintain and improve its public service infrastructure to meet its customers' needs.

Q8. WHY SHOULD THE COMMISSION BE CONCERNED ABOUT THE COMPANY'S COMMITMENT TO ITS OWNERS AND DEBT HOLDERS?

A. It is my understanding that the Commission has an obligation to balance utility and customer interests to reach a decision that is in the public interest. Accordingly, the Commission pays great attention to issues important to customers such as quality of service, safety of operations, the prudence of storm restoration activities, opportunities to reduce costs, and the efficiency of management. Both the Commission and customers rightly expect quality service from ELL.

At the same time, public utilities operate in competitive markets for capital, labor, and materials. Quality service cannot be achieved and maintained at a reasonable cost if utilities do not have the financial flexibility and strength to access these competitive markets on reasonable terms. Satisfying all of the needs and concerns of the Commission and customers requires a financially sound utility. Sustaining quality services for customers over the long term requires meaningful consideration of the interests of owners and debt holders.

Regulation that pits customers against the owners can result in the utility not recovering its actual, reasonable costs of providing public service to customers. As a result, the owners are denied a reasonable opportunity to earn a fair return on their investment. The cost of capital increases with the increased business and regulatory risk. Ultimately, that approach weakens the financial condition of the utility and leads to obligatory cuts in expenses and infrastructure improvements. This, in turn, results in deterioration of service quality and declines in customer satisfaction. While customers may have lower rates in the short term, (those rates soon will rise because a financially strapped utility will face increased costs of capital), the customers are not satisfied because their service does not meet their needs and expectations. It does the customer little good to pay a lower price for service, if the quality of service is put on a path to deteriorate.

Q9. HOW DOES A CONSTRUCTIVE REGULATORY ENVIRONMENT BENEFIT CUSTOMERS?

A. As discussed in more detail by Company witness Todd A. Shipman, when capital investors, both owners and bondholders, believe that they are investing in a utility where the regulator is fair and consistent and provides direction on the investments that a utility should make to serve customers, certainty as to the utility's ability to serve customers, and a reasonable opportunity for the utility to recover its costs, including the cost of capital, and to maintain its financial health, then investors will require less of a return than if those factors are not present. A lower cost of capital, which still affords investors a reasonable return on their investment, benefits customers through

lower rates and better access to the capital markets on reasonable terms. Credit rating agencies who evaluate the ability of investor-owned utility companies to meet their obligations to investors consider the regulatory environment in which each company operates as a significant factor in the setting of the credit rating for that company. Those credit ratings directly affect the cost of capital needed for investments that benefit customers and drive overall customer rates.[3] Thus, a constructive regulatory environment benefits both customers and investors when the regulator allows their interests to align and be appropriately balanced.

Q10. WHAT DO YOU SEE AS ELL'S MAJOR OBSTACLE IN THE COMING YEARS TO MAINTAINING CREDITWORTHINESS AND MEETING CUSTOMERS' NEEDS?

A. Regulatory lag is a major obstacle to ELL delivering benefits to stakeholders, such as the continued modernization of ELL's transmission and distribution systems and maintaining a sound financial condition. Furthermore, regulatory lag in the context of ELL's planned significant capital expenditures, which I discuss in the next section of my testimony, deprives ELL of a reasonable opportunity to recover its authorized return on equity.

[3] Phillips, Charles F., Jr., *The Regulation of Public Utilities* 250 (Public Utilities Reports, Inc. 3rd ed. 1993).

Q11. WHAT IS REGULATORY LAG?

A. As Ms. Maurice-Anderson addresses in greater detail, regulatory lag is generally defined as the period between when a utility experiences a change in cost and when new rates are set reflecting that change. In the context of significant capital investment in which cash flow is a concern, regulatory lag means that a utility has lost cash flow associated with a portion of the return of and the return on its investment.

Q12. PLEASE DESCRIBE ELL'S PLANNED CAPITAL EXPENDITURES OVER THE NEXT FIVE YEARS.

A. Over the next five years, ELL expects to invest approximately [redacted] in its utility infrastructure, excluding major storm-related capital spending and Resilience Plan capital spending, which is reflected in the table below.

HSPM Table 1 Planned Non-Major Storm, Non-Resilience Capital Spending Total Company 2023-2027 ($ billions)			
2023		[redacted]	
2024			
2025			
2026			
2027			
Total			

The above table does not include $2.2 billion of Resilience Plan capital spending that ELL has planned for the five-year period. The precise timing and scope of that spending, however, will be guided by the Commission's decision in the Resilience Plan Docket, discussed below.

This projected capital spending in HSPM Table 1 exceeds ELL's non-storm capital expenditures over the previous five years by approximately $200 million. Moreover, the annual capital spending amounts in Table 1 far exceed ELL's 2022 depreciation expense of $680 million. These comparisons show that ELL will have substantial cash requirements over the next five years as it continues to modernize its infrastructure, which will benefit customers in terms of the quality of services that they receive.

Q13. PLEASE PROVIDE AN OVERVIEW OF THE CAPITAL PROJECTS DRIVING THE PROJECTIONS IN HSPM TABLE 1.

A. The capital projects reflected in HSPM Table 1 above include improvements and upgrades to the distribution and transmission systems continuing the Company's efforts to improve overall grid reliability; replacement of the low-pressure steam generator turbines at Waterford 3 nuclear generating station, which are expected to increase capacity of the unit by 30 MW; upgrades to information technology ("IT") applications and infrastructure; and the construction of a small fraction of the additional needed generation.

As mentioned above, the amounts in HSPM Table 1 do not include Resilience Plan capital spending. If the Commission approves the Resilience Plan, then the amounts shown above would increase.

Q14. PLEASE DESCRIBE ELL'S FINANCIAL PLANNING PROCESS.

A. ELL's financial planning process has two major components, sales forecasting and cost budgeting. Econometric models are used for forecasting electric retail sales, which assume normal weather. A separate model is used for each customer class. For commercial and small industrial customers, these models use a variety of economic driver data, including driver data for the geographic area served by the Company, as well as national driver data and energy efficiency and temperature data. For residential customers, the model uses household count, energy efficiency, and temperature data. For large industrial sales, ELL receives information from its large industrial customers about their planned power and energy requirements and assesses the likelihood of its customers' plans materializing.

A three-phase budgeting process is used for developing ELL's cost budget. In the first phase, long-range financial plans, based upon the prior year's performance and future objectives, are established. These long-range financial plans balance ELL's cash needs versus the need to preserve ELL's financial condition and maintain customer affordability so that ELL can control capital costs and access the capital markets on reasonable terms. These overall long-range financial plans then are cascaded down through the respective functions, ultimately reaching individual organization management.

The second phase is referred to as the "detailed budgeting phase." During this phase, operating budgets are prepared to include all the costs, both expenses and capital expenditures, for which the organization's manager is responsible. An organization is the designation given a grouping of personnel and tasks under common management.

For example, the manager of ELL's customer service organization is responsible for the customer service operating budget.

In the final phase, detailed budgets are summarized, reviewed, and approved from a functional organization (e.g.., Transmission and Distribution) view as well as from a legal entity (i.e., ELL) view. This phased approach ensures that the planned budgets are an accurate depiction of the costs an organization anticipates it will incur, cost-efficient, can be effectively implemented and managed, and are consistent with long-range financial plans. This process is also used for capital budgeting.[4]

Q15. DOES THE COMPANY'S PLANNING PROCESS INCLUDE ASSUMPTIONS ABOUT RATES AND RATEMAKING MECHANISMS?

A. Yes. In order to forecast the resulting financial effects on earnings and cash flow from the forecasted spend, ELL is forced to make assumptions about future rates and ratemaking mechanisms. These assumptions start with the current ratemaking mechanisms in place and makes certain adjustments for expectations and targets of future mechanisms.

Q16. SHOULD ELL'S FINANCIAL PLANNING PROJECTIONS BE TREATED AS A COMMITMENT BY ELL TO ATTAIN CERTAIN FINANCIAL RESULTS?

A. No, they are a planning tool that the Commission should rely upon in the same manner that ELL does. The financial planning projections are estimates based on current

[4] ELL is in the process of enhancing its capital budgeting process.

information and certain assumptions and represent ELL's current projection of future financial results. Again, ELL cannot predict the future with certainty. For example, as a part of its processes, ELL replaces monthly projections for the current year with monthly historical accounting data and reflects the effect of the replacement on subsequent projections. Unless the historical accounting data is identical to the projections that the historical accounting data replaced, this update changes ELL's projections. Thus, one should not view ELL's projections as committing ELL to take any specific action in the future or to achieve a specific outcome. These projections are important in understanding how a decision today is likely to affect future outcomes and, therefore, warrant consideration.

Q17. HOW DOES THE COMPANY BALANCE ITS CASH NEEDS VERSUS THE NEED TO PRESERVE ELL'S CREDITWORTHINESS?

A. As part of its financial planning process, ELL monitors how its cash outflows affect the credit metrics used by credit ratings agencies to evaluate ELL's credit quality. ELL especially focuses on the credit metric Funds From Operations ("FFO") to Debt. As explained by Mr. Shipman, FFO to Debt and Cash Flow From Operations Before Changes in Working Capital ("CFO pre-WC") to Debt have become the preferred credit metric of utility credit analysts. These credit metrics measure the degree of financial risk (the lower the percentage, the higher the risk) experienced by a firm by comparing its cash flow to the level of debt the company requires to sustain its operating and capital investment activities. As explained by Mr. Shipman, this is often perceived as the most rigorous measure of creditworthiness because improvements in

the metric require growing cash flow from operations at a faster pace than adding new debt and increasing risk.

Q18. HOW DOES THE COMPANY USE THE FFO TO DEBT RATIO?

A. ELL calculates the FFO to Debt Ratio for each of the five years in its plan using planning information and projections. ELL then compares the ratios to its internal FFO to Debt Ratio targets, which are set at a level intended to preserve the Company's financial condition. The current target for 2024 and thereafter is [redacted] Since Hurricane Laura, ELL has been unable to meet this target in its financial plans as a result of the additional debt taken on to fund storm restoration activities, but ELL must start planning to meet that target now that ELL has completed its recent securitizations in 2022 and 2023 to ensure that ELL has the lowest reasonable capital costs for customers.

Q19. PLEASE DESCRIBE THE PROCESS THROUGH WHICH ELL SETS INTERNAL FFO TO DEBT TARGETS FOR FINANCIAL PLANNING PURPOSES.

A. Management considers credit rating agency communications and other factors to set its internal targets. The credit rating agencies communicate to ELL through reports, such as those discussed in Mr. Shipman's testimony, and other communications, their guidance regarding what credit metric levels are necessary to maintain ELL's current credit ratings. Management then sets an internal target above what the credit ratings agencies consider necessary in order to ensure ELL can routinely meet the target set by the ratings agencies while also providing ELL with the flexibility to respond to

emergent costs and identified opportunities to continue to meet customers' needs and expectations.

Q20. ARE THE INTERNAL FFO TO DEBT TARGETS SET AT THE LOWEST LEVEL NECESSARY TO AVOID CREDIT DOWNGRADES?

A. No, that would not be prudent. First, these are planning targets, and, as described above, ELL's financial plans use estimates and assumptions and are subject to change based on actual data. As I mentioned before, ELL is not able to predict the future. Second, as I mentioned before, ELL's financial condition must be able to withstand the financial consequences of unforeseen adverse events.

For example, at the onset of business closures resulting from the COVID-19 pandemic, ELL anticipated that its sales would be less than the planned level and ELL would not meet its internal targets and likely not meet the credit rating agencies' targets. Thus, ELL took actions to reduce expenses, while minimizing any effects on the provision of service to customers, in order to meet its internal targets. Such actions included stopping non-critical employee travel and delaying the filling of vacant employee positions.

Q21. ASSUME A SIMPLE EXAMPLE IN WHICH ELL HAS DEVELOPED A FIRST DRAFT OF ITS FINANCIAL PLAN FOR THE UPCOMING YEAR AND THE FFO TO DEBT RATIO IS BELOW THE TARGET. WHAT CAN ELL DO TO ITS FINANCIAL PLAN TO IMPROVE THE FFO TO DEBT RATIO?

A. There are options, but all the options have consequences that affect customers. At the most basic level, ELL would have to either reduce its debt load or generate more free cash flow, increasing its FFO. The two primary ways for ELL to reduce its debt load are (1) to increase its equity layer or (2) to reduce its planned level of capital spending in a year by deferring improvements to a future year. Both of these options would have the effect of reducing debt, but both would also come with effects on customers. An increase to ELL's equity layer would increase equity costs on all rate base for customers. ELL would do this only if ELL determined the benefits of increasing its equity layer – e.g., additional cash flow, reduced debt, improved credit metrics – exceeded the increased equity costs. The other option, a reduction in planned capital spending, could reduce operational performance, and with it, customer satisfaction.

A third option to improve FFO to Debt would be for ELL to obtain a tailored constructive ratemaking mechanism, such as the Additional Capacity Mechanism ("ACM") for new generation assets, which matches changes in customer rates to the in-service date of the new generation, thereby matching benefits with costs. Such a mechanism makes it possible for ELL to implement its capital plans in an efficient manner for customers.

Q22. WHAT RATEMAKING ASSUMPTIONS UNDERLIE THE PLANNED CAPITAL EXPENDITURE IN HSPM TABLE 1?

A. The most important ratemaking assumption is that a Formula Rate Plan is in place. Included in the FRP assumption is the expectation that key mechanisms within the FRP – the ACM, TRM, and DRM – are maintained and improved, as described by Ms. Maurice-Anderson.

Q23. CAN THE COMPANY MAINTAIN ITS CREDITWORTHINESS AND PLAN TO UNDERTAKE THE PLANNED CAPITAL EXPENDITURES IN HSPM TABLE 1 WITHOUT AN FRP IN PLACE?

A. No. ELL's planning process would show that ELL is unable to meet its internal FFO to Debt Ratio targets because of the regulatory lag and the loss of cash flow that results from recovering the capital spending.

Q24. DOES HSPM TABLE 1 REFLECT ALL THE CAPITAL PROJECTS NEEDED TO MEET CUSTOMERS' NEEDS OVER THE PERIOD 2023 THROUGH 2027?

A. No, it does not. ELL believes there are more projects that it should undertake to benefit customers and communities in the areas that ELL serves, but ELL is unable to fully reflect these projects in its financial plan because the inclusion of these projects would cause ELL's cash flow to fall below its FFO to Debt targets. ELL will not be able to reflect these projects in its financial plan without constructive ratemaking mechanisms that mitigate regulatory lag and provide ELL a reasonable opportunity to recover its costs, including the Commission-approved return on equity. Such support will have to

be ongoing because the Company cannot predict the future, and a rate mechanism that is sufficiently supportive in one set of circumstances may need to be augmented as circumstances change.

Q25. WHAT ARE THE SIGNIFICANT PROJECTS THAT ARE NOT REFLECTED IN HSPM TABLE 1?

A. There are two significant initiatives that ELL needs to undertake to meet current and future customer needs. First, ELL has proposed the Resilience Plan ("Resilience Plan"), which is the subject of LPSC Docket No. U-36625 ("Resilience Plan Docket").

Second, ELL has proposed new renewable resources and a process for obtaining more renewable resources in LPSC Docket No. U-36697, which ELL initiated in March 2023. Only a portion of the solar projects' forecasted capital expenditures are included in HSPM Table 1.

Q26. PLEASE DESCRIBE THE RESILIENCE PLAN.

A. The Resilience Plan seeks to improve the resilience of ELL's electric system through accelerated infrastructure hardening and vegetation management over the course of ten years. The distribution and transmission hardening component of the Resilience Plan has a nominal cost of over $9 billion. Other hardening components have a nominal cost of $188 million. The Resilience Plan will not eliminate ELL's substantial and increasing storm risk. Rather, the Company estimates that the plan's benefits (present value) to customers in terms of reduced storm restoration costs are substantial, in the range of $3 billion, assuming a very low storm future, to $4 billion, assuming a very

high storm future. The plan's estimated benefits, in terms of the reduction in customer minutes interrupted following future storm events, are compelling as well.

Q27. IS MITIGATING FUTURE STORM RESTORATION IMPORTANT TO CUSTOMERS?

A. Yes. As explained in the Company's testimony in the Resilience Plan Docket, ELL very likely would have limited capacity to use securitization debt to finance any additional storm restoration costs for a number of years. As of March 31, 2023, there is approximately $4.7 billion of securitization bond principal outstanding. This is a very significant change, given that the balance as of December 31, 2021 was $0.2 billion.

Q28. WHAT IS THE COMPANY'S REQUEST IN THE RESILIENCE PLAN DOCKET?

A. The Company is seeking approval to commence Phase I of the Resilience Plan, which includes approximately $5.0 billion (nominal) in projects proposed to be implemented in the first five years (2024 to 2028) ("Phase I").

Also, the Company is seeking approval of Resilience Plan Cost Recovery Rider (the "Resilience Plan Rider" or "Rider"), to permit timely recovery of the Resilience Plan's revenue requirement as ELL completes the plan's resilience improvements and customers begin receiving the benefits of those improvements. The proposed Rider would address ELL's cash flow concern discussed above and place ELL in a much better position to execute Phase I of the Resilience Plan for the benefit of customers.

As mentioned above, ELL's planned capital spending includes less than half of the Phase I amount.

Q29. COULD THE COMPANY MAINTAIN ITS CREDITWORTHINESS AND EXECUTE PHASE I OF THE RESILIENCE PLAN WITHOUT TIMELY COST RECOVERY THROUGH THE RESILIENCE PLAN RIDER OR A SIMILAR RATE MECHANISM?

A. No. Without timely cost recovery, ELL would have insufficient cash available to fund its operations and would need to issue additional debt. The Company would not satisfy its FFO to Debt target, which would draw criticism from credit rating agencies. Thus, ELL's creditworthiness would be compromised.

Q30. COULD THE COMPANY OBTAIN THE RENEWABLE GENERATION AND BUILD TRANSMISSION FACILITIES DESCRIBED BY MS. BEAUCHAMP WITHOUT A CONSTRUCTIVE RATEMAKING MECHANISM MITIGATING REGULATORY LAG?

A. No. Adding the necessary PPA payments and/or resource construction capital spending to ELL's current planned spending in HSPM Table 1 above plus the Resilience Plan capital spending without constructive ratemaking mechanisms in place would adversely affect ELL's financial condition. ELL needs the assurance that constructive ratemaking mechanisms like the ACM and TRM would be in place so that regulatory lag does not harm ELL's cash flow and financial condition.

Q31. WHAT ARE THE INFLATION REDUCTION ACT TAX EFFECTS THAT ELL EXPECTS TO CAUSE A NEAR-TERM CASH FLOW HEADWIND?

A. As discussed by Company witness Stacey L. Whaley, ELL expects to be eligible for production tax credits ("PTCs") under the Inflation Reduction Act and potentially subject to the corporate alternative minimum tax ("CAMT") at some point in the future. With PTCs being tied to a generator's output, the PTCs may be quite significant. Due to the existence of ELL's net operating loss ("NOL") carryforwards, the negative cash flow from immediately providing credits to customers for the grossed-up value of the PTCs would likely be damaging to ELL's FFO to Debt Ratio and financial condition, which would already be stressed by the Company's capital plans discussed previously. Also, ELL may be subject to the CAMT in the near future, which would also negatively affect cash flow. Accordingly, ELL requests the Commission consider a constructive ratemaking solution to address this cash flow headwind.

Q32. HOW SIGNIFICANT DOES ELL EXPECT THE PTCS FROM THE INFLATION REDUCTION ACT TO BE?

A. ELL currently estimates the value of the PTCs it may be eligible to receive from 2024 through 2027 to be in the range of [redacted] As Ms. Whaley explains, the IRS has not yet issued final guidance regarding the valuation of PTCs for nuclear generating units, so ELL's current estimate of the total PTCs includes a number of assumptions as to what ELL thinks the guidance from the IRS may be. The amount of the PTCs also will depend upon the actual production of the units. In addition to the estimate of the PTCs themselves, ELL will also have to fund the tax gross-up for the

PTCs, when the PTCs are flowed to customers. This gross-up will only increase the total amount that ELL will need to provide to customers. Thus, ELL must address the ratemaking treatment of the PTCs and their potential effects on ELL's creditworthiness because of the significance of the amounts involved.

Q33. WHAT IS ELL'S PROPOSAL?

A. ELL seeks a constructive ratemaking solution that flows the benefits of the PTCs, net of any costs associated with PTC monetization, over a longer time period, such as the remaining useful life of the resource generating the PTCs. Such proposal would prevent sharp increases in rates when the PTCs phase out and would support intergenerational equity by allowing the benefits from the PTCs to be flowed over the asset's remaining useful life to the various customers bearing the cost of the resource generating the PTCs. Also, such proposal would preserve ELL's cash flow and ensure that ELL is able to access capital at reasonable costs, which benefits customers.

Q34. WOULDN'T CUSTOMERS BE BETTER OFF IF THEY RECEIVE THE PROCEEDS OF THE PTC MONETIZATION IN A SHORTER TIMEFRAME?

A. No. ELL's proposal to flow the PTCs back over time keeps customers whole. This is because, after PTC monetization, ELL proposes that the proceeds, including tax gross-up, be used to offset rate base as a plant contra-asset, which would be depreciated over the remaining useful life of the resource generating the PTCs. Because the plant contra-asset is reflected in rate base, on a net-present-value basis, customers are in the same position as if ELL refunded the proceeds to customers shortly after monetization.

Q35. WHAT RATEMAKING MECHANISM WOULD ELL USE TO FLOW THE BENEFIT OF THE PTC PROCEEDS TO CUSTOMERS?

A. ELL would flow the benefits through the FRP. Company witness Ms. Maurice-Anderson describes how the Company's proposed FRP would flow these benefits to customers.

Q36. WHAT IS ELL'S CONCERN REGARDING PROPERTY TAX EXPENSES?

A. As ELL adds the infrastructure improvements described in my testimony, ELL's property tax expense will increase. Additionally, certain property tax exemptions have expired or will be expiring in the near future. These include those for the Waterford 3 Steam Generator replacement, which expired in 2022, increasing ELL's total assessment for property tax for 2023 and Ninemile unit 6, which expires in 2024 and is expected to increase ELL's assessment beginning in 2025. Although these increases in property tax expenses benefit the communities in which these facilities are located, they will have negative cash flow consequences for ELL unless addressed.

Q37. WHAT IS ELL'S PROPOSAL?

A. ELL proposes that the Tax Reform Adjustment Mechanism, which ELL has proposed to rename the Tax Adjustment Mechanism or "TAM," be modified to include changes to property tax expense occurring in the Evaluation Period or that will occur in the corresponding filing year. Ms. Maurice-Anderson discusses this change in her Direct Testimony.

Q38. WHY IS SUCH A CHANGE REASONABLE?

A. Currently, the TRM and DRM only provide for the recovery of the return of and on the allowed transmission and distribution capital additions outside the bandwidth formula. The ACM allows the recovery of the initial revenue requirement associated with a new generating facility to commence outside the bandwidth formula when the facility goes in service. It is reasonable to afford similar ratemaking treatment to property tax expense that is related to these capital additions.

When the property tax exemption expires, ELL can only recover the increased property tax expense through the bandwidth calculation. Recovery through the bandwidth calculation in the current cost environment means that such recovery will be partial at best. In contrast, customers will have received 100% of the benefits of the tax exemption and will continue to receive 100% of the benefits of the facility itself. Partial cost recovery of property tax expense for ELL when customers receive 100% of the benefits of the related assets is an unreasonable and unfair result for ELL, especially when ELL is seeking the property tax exemptions to benefit customers. Permitting the recovery of known and measurable changes to property tax expense would remedy this unfairness.

Q39. WHAT STEPS DOES ELL REQUEST THAT THE COMMISSION TAKE IN THIS RATE CASE TO MAINTAIN ELL'S CREDITWORTHINESS AND A CONSTRUCTIVE REGULATORY ENVIRONMENT THAT ENSURES THAT ELL CAN EXECUTE ITS CAPITAL PROGRAM AND PROVIDE BENEFITS TO CUSTOMERS?

A. The Company's Rate Case filing, as described by Mr. May, requests the following five steps.[5] If the Commission takes these supportive steps, ELL should possess the creditworthiness to execute its capital program and modernize its infrastructure at the lowest reasonable cost to customers, as well as have the ability to support customers during unforeseen events like COVID-19 and the 2020 hurricane season.

First, the Commission should set ELL's ROE at 10.5% as described by Mr. May and supported by the analyses of Company witness Mr. McKenzie. Second, the Commission should approve a new FRP, which Ms. Maurice-Anderson's testimony describes in detail. Third, the Commission should approve ELL's proposed ratemaking treatment for Inflation Reduction Act tax effects to preserve cash flow. Fourth, the Commission should adopt the proposed depreciation rates recommended by Company witness Mr. Dane Watson. Fifth, the Commission should approve the shift of trust funding from the River Bend decommissioning trust to the Waterford 3 decommissioning trust without changing the current combined decommissioning revenue requirement. Below I explain why ELL requests the Commission take these steps.

[5] Mr. May discusses the Company's Rate Mitigation Proposal and why that proposal, if allowed, would support ELL.

Q40. HOW WOULD SETTING ELL'S ELECTRIC BASE RATES BASED ON AN ROE OF 10.5% MAINTAIN ELL'S CREDITWORTHINESS AND THE CONSTRUCTIVE REGULATORY ENVIRONMENT?

A. A supportive ROE is important to delivering the cash flows necessary to allow ELL to continue to deliver infrastructure improvements and new technologies to customers without putting ELL in the position of a credit downgrade or reducing investor confidence, thereby increasing costs for customers. ROE determines the equity available either for return to equity investors or for capital reinvestment in the utility to improve the utility's facilities and maintain or improve the quality of service provided to customers. A utility must invest equity into improvements needed to serve customers in order to prevent the utility's financial condition from deteriorating and becoming riskier (e.g., if a utility were to fund new investments with debt only, it could become overly debt-laden), which could lead to higher capital costs for customers. As a result, an unduly low ROE becomes a limitation on the ability of a utility to timely invest in its facilities while maintaining its creditworthiness over the long-term. Of course, as with any ratemaking paradigm, the ROE is but one element of the structure that is needed to ensure that utilities can achieve just and reasonable rates. For example, a reasonable ROE coupled with regulatory mechanisms that don't allow the utility to earn that ROE would not produce a just and reasonable outcome. Likewise, more constructive regulatory mechanisms that produce timely and effective cost recovery, and lower the utility's risk, might support a somewhat lower ROE.

Furthermore, as Mr. Shipman explains, the allowed ROE can be a bellwether of the state of the regulatory environment, and the setting of a substantially lower than expected ROE can be a factor in adverse credit ratings actions. For example, in 2014, Moody's passed over EAI (now EAL) for a credit rating upgrade after a rate case order from the APSC setting an unexpectedly low ROE, thus, effectively downgrading EAL relative to its peers in the industry, as shown in Exhibit REO-2.

The ROE recommended by Mr. May and supported by Mr. McKenzie would deliver adequate cash flows and maintain investor confidence despite the cash flow pressures and risks described by me earlier in my testimony, including ELL's increasing storm risk.

Q41. HAS ELL BEEN ABLE TO EARN ITS AUTHORIZED ROE DURING THE MOST RECENT EXTENSION OF THE FRP?

A. No. A rate change cap of $70 million accompanied the most recent extension of the FRP and prevented ELL from earning its authorized ROE. As shown in the table below, in the last three FRP Evaluation Reports, ELL earned significantly less than its authorized ROE, and the $70 million rate change cap made it impossible for ELL to earn its authorized ROE.

Table 2 FRP Results for Test Years 2020 - 2022			
Test Year	2020	2021	2022
Top of Band	10.00%	10.00%	10.00%
Midpoint	9.50%	9.50%	9.50%
Bottom of Band	9.00%	9.00%	9.00%
EROE	8.45%	8.33%	8.33%
Revenue Gap to Midpoint	$96M	$117M	$117M
Allowed rate change	$63M	$65M	$5M

Q42. HOW WOULD THE ADOPTION OF A NEW FORMULA RATE PLAN MAINTAIN ELL'S FINANCIAL CONDITION AND THE CONSTRUCTIVE REGULATORY ENVIRONMENT?

A. Generally, annual FRP reviews provide a timely and efficient mechanism for the Commission to review rates and determine whether adjustments are necessary. The use of an FRP provides significant administrative efficiencies (both in terms of cost and time) as compared to base rate cases. The FRP also helps to ensure that adjustments to rates will be made in a timely fashion, which benefits both customers and the Company. In fact, as discussed by Mr. Shipman, the most recent Moody's report for ELL identified the FRP as a "credit strength" because it "enhances earnings predictability."[6]

[6] Exhibit TAS-5 at 1.

Q43. WHAT WOULD OCCUR IF THE COMMISSION DOES NOT APPROVE A NEW FRP?

A. ELL would need to revisit its capital plans and likely reduce or defer capital spending, which would delay the benefits to customers of the associated capital projects because ELL is not willing to embark on a financial plan that involves undue reliance on debt and exposes ELL to deterioration of its financial condition, which would result in higher capital costs for customers without any additional benefits not to mention risking ELL's ability to borrow at reasonable costs to restore from major weather events. Theoretically, a utility could be forced to file annual, or "pancaked," rate cases in order to timely reflect its costs in rates, but such a course of action would be detrimental to both ELL and its customers, as discussed by Ms. Maurice-Anderson.

Q44. SHOULD THE FRP CONTINUE TO HAVE FEATURES THAT SUPPORT CERTAIN INFRASTRUCTURE IMPROVEMENTS?

A. Yes. As I mentioned earlier, ELL needs the cash flow support and mitigation of regulatory lag provided by the ACM, TRM, and DRM to execute its capital plans.

ELL also proposes that equity ratio limitation included in the current FRP be eliminated. The current equity ratio limitation is based on the other Entergy Operating Companies' equity ratios. Linking ELL's equity ratio to that of the other Entergy Operating Companies does not make sense. ELL's challenges and opportunities are different from its sister companies, and ELL needs the flexibility to thicken its equity ratio in response to ELL's particular circumstances. ELL, however, does not have any plans to thicken its equity ratio at this time.

Q45. SHOULD THE NEW FRP CONTINUE THE PROVISIONS THAT LIMIT ELL'S ABILITY TO EARN ITS ALLOWED ROE?

A. No, the FRP approved in this proceeding should not include provisions that would hinder ELL's ability to earn its authorized ROE. For example, there should be no cap placed on the level of rate changes that may occur in the cost-of-service portion of the FRP, and the cap on the Distribution Recovery Mechanism also should be removed.

Q46. HOW WOULD THE ADOPTION OF ELL'S PROPOSED RATEMAKING TREATMENT FOR INFLATION REDUCTION ACT PTCS HELP TO MAINTAIN ELL'S FINANCIAL CONDITION AND THE CONSTRUCTIVE REGULATORY ENVIRONMENT?

A. The adoption of the proposed ratemaking treatment would preserve cash, while providing the PTCs to customers over a period that matches the remaining useful life of the unit that produced the PTCs. This would enable ELL to continue to make important capital improvements for the benefit of customers, while still providing the full value of the PTCs as rate base offsets until the benefits are fully provided back to customers.

Q47. HOW WOULD THE ADOPTION OF NEW DEPRECIATION RATES HELP TO MAINTAIN ELL'S FINANCIAL CONDITION AND THE CONSTRUCTIVE REGULATORY ENVIRONMENT?

A. Such a step would be constructive because updated depreciation rates would allow the Company to recover its capital and thereby result in additional cash for reinvestment

during the Company's significant capital program intended to benefit customers. As discussed in the Direct Testimony of Mr. Watson, ELL's electric depreciation rates should be increased so that the customers that receive service from the Company's assets bear the corresponding cost of these assets as they receive service instead of burdening future customers with higher costs in order to receive the same benefits as current customers from the same assets.

Q48. HOW WOULD THE SHIFTING OF THE TRUST FUNDING FROM THE RIVER BEND DECOMMISSIONING TRUST TO THE WATERFORD 3 DECOMMISSIONING TRUST HELP TO MAINTAIN ELL'S FINANCIAL CONDITION AND THE CONSTRUCTIVE REGULATORY ENVIRONMENT?

A. The shift in funding would begin to address the risk that the Waterford 3 decommissioning trust will be deficient in the future and not affect customers' rates. Such shift would be constructive because it offers some mitigation of risk with no burden to customers.

IV. PLANT TRANSFERS ADJUSTMENT

Q49. WHAT IS THE BASIS OF THE AMOUNTS INCLUDED IN ADJUSTMENT AJ35-PLANT TRANSFERS DISCUSSED BY MR. BARRILLEAUX?

A. The basis for the adjustment is actual plant closings from December 31, 2022 through March 31, 2023 and projected plant closings through August 31, 2024. The projected plant closings are from the Company's planning process, described above. Projected closings for specific capital projects are determined by the organization responsible for

the project. During the planning process for the project, the organization estimates the closing date or dates associated with the project or its components and is responsible for updating the closing information over the construction of the project. Blanket capital projects capture the costs of a group of small capital projects that are not able to be tracked efficiently on an individual basis, such as Distribution capital projects involving mass property. For planning purposes, blanket capital projects are assumed to close ratably over the course of the calendar year.

Q50. PLEASE SUMMARIZE THE PLANT CLOSINGS THAT ELL IS INCLUDING IN THE PLANT TRANSFERS ADJUSTMENT.

A. The plant transfers adjustment seeks to include $1.843 billion of plant closings in rate base. The following table shows those closings by function.

Table 3
Plant Closings Included in the Plant Transfers Adjustment ($millions)

Category	Amount
Intangible	201
Production	394
Transmission	494
Distribution	628
General	125
Total	1,843

Q51. WHAT MAJOR PROJECTS DRIVE THE CLOSINGS TO PRODUCTION PLANT?

A. The major projects driving the Production closings are the Main Condenser Tube Bundle replacement at River Bend Station, the Turbine Generator Stator Restack/Replacement at Waterford 3, the replacement of the Digital Electro-Hydraulic

(DEH) Control System at Waterford 3, and the Replacement of the fifth point Feedwater Heater at River Bend Nuclear Station.

Q52. WHAT MAJOR PROJECTS DRIVE THE CLOSINGS TO TRANSMISSION AND DISTRIBUTION PLANT?

A. Company witness Mr. Benyard provides information regarding the major projects driving the closings in the Transmission and Distribution functions. As for a high level overview, transmission closings are driven by projects that ensure the transmission system meets NERC standards for bulk electric system reliability through new lines, substations, and equipment upgrades as well as to support growth that is occurring in the State. Distribution projects are driven by projects that address necessary improvements to ensure that the distribution system can distribute sufficient energy safely and reliably to ELL's customers as customer loads change over time and as new distributed energy resources and other changes to the operation of the grid are implemented. Both functions also benefit from investments to add resilience and support faster and less costly time to recover from major weather events

Q53. WHAT MAJOR PROJECTS DRIVE THE CLOSINGS TO INTANGIBLE PLANT?

A. The major projects driving the Intangible plant closings involve the new MaxGen System. This system would replace the existing asset management system for the nuclear function and the supply chain systems for all utility functions operations and would be integrated with the Company's finance and accounting systems.

Q54. WHAT MAJOR PROJECTS DRIVE THE CLOSINGS TO GENERAL PLANT?

A. The major projects driving the General Plant closings involve the upgrade of information technology networks and telecommunication networks.

V. STORM RESERVE ACCRUAL

Q55. WHAT IS ELL'S PROPOSAL WITH RESPECT TO ITS STORM RESERVE ACCRUAL?

A. ELL requests that the Commission increase its storm reserve accrual so that the increased recovery mitigates the need for ELL to withdraw funds from its storm escrow account to timely recover storm restoration costs. Specifically, ELL requests that the annual storm reserve accrual be increased from $5.6 million to $12.4 million. The requested increase is included in Adjustment AJ32 Storm Reserve Accrual.

Q56. HOW ARE STORM RESTORATION COSTS INCURRED BY THE COMPANY FOR WEATHER-RELATED EVENTS RECOVERED?

A. There are two primary ways that the Company recovers costs incurred as a result of weather events. One method is through withdrawals from a cash escrow account. The other way the Company can fund storm costs is through a storm reserve accrual. A storm reserve accrual is a ratemaking mechanism that enables utilities to mitigate the financial effects of weather-related events. Storm reserve accruals are funded with cash collected through base rates, and a credit is established on the Company's balance sheet and reduces rate base because the cash from the storm reserve accrual is not segregated and available for investment by the Company. When a weather-related event affects

an area served by the Company, the related costs are charged against the balance in the storm reserve account and not against the Company's income. Today, the cumulative charges have exceeded the cumulative storm reserve accruals, and the storm reserve is a debit on the Company's balance sheet, increasing the Company's rate base.

Q57. PLEASE PROVIDE BACKGROUND ON ELL'S CASH ESCROW ACCOUNT.

A. The Commission first provided for the establishment of cash escrow accounts for Legacy ELL and Legacy EGSL following Hurricanes Katrina and Rita. In LPSC Docket No. U-29203, the Commission authorized two cash storm escrow accounts in the amount of $239 million, $152 million for Legacy ELL and $87 million for Legacy EGSL. These accounts were fully depleted when the areas served by Legacy ELL and Legacy EGSL were hit in 2008 by Hurricanes Gustav and Ike. To finance future storm restoration costs following Hurricanes Gustav and Ike, the Commission authorized the replenishment of the cash escrow accounts in the amount of $290 million, $200 million for Legacy ELL and $90 million for Legacy EGSL, as approved in LPSC Docket No. U-30981.

The legacy companies used these accounts again to fund storm restoration costs in 2012 resulting from Hurricane Isaac. To finance future storm restoration costs following Hurricane Isaac, the Commission authorized the replenishment of the cash escrow accounts to $200 million for Legacy ELL and $90 million for Legacy EGSL, as approved in LPSC Docket No. U-32764.

Q58. WHAT IS THE CURRENT BALANCE OF THE CASH ESCROW ACCOUNT?

A. The Company again exhausted the funds in its escrow as a result of the 2020 hurricanes, and the Commission authorized the replenishment of the cash escrow account back to the $290 million level as part of the recently completed securitizations of storm costs. As a result of earnings on the amount in the escrow account, the balance of the cash escrow account as of May 31, 2023 is $298.8 million.

Q59. WHY DOES ELL NEED TO INCREASE ITS STORM RESERVE ACCRUAL IF IT HAS A CASH ESCROW ACCOUNT?

A. The increase is necessary to provide ELL a stable funding source to address restoration costs associated with recurring weather events other than major weather events. These weather events are becoming more frequent and severe, and without a sufficient storm reserve accrual, ELL may accumulate large balances of unrecovered costs that require Commission action to address. An increase to the storm reserve accrual would permit the stable recovery of these costs to continue with less accumulation risk. Accordingly, the Commission should permit a reasonable increase to the storm reserve accrual to assure recovery storm restoration costs associated with less severe weather events in a timely, predictable manner.

Q60. HAS THE COMPANY PERFORMED ANY ANALYSIS OF THE STORM RESTORATION COSTS ASSOCIATED WITH LESS SEVERE WEATHER EVENTS THAT SUPPORTS THE PROPOSED INCREASE TO THE STORM RESERVE ACCRUAL?

A. Yes. The analysis is included in ELL's cost of service of study as WPAJ32.3, which is also discussed by Mr. Barrilleaux. Over the five-year period 2018 through 2022, ELL's minor storm restoration costs averaged $12.4 million per year excluding the costs associated with Tropical Storm Barry. Accordingly, ELL is requesting that its storm reserve accrual be raised to that level.

Q61. ARE ANY OTHER RECOVERIES INCLUDED IN ADJUSTMENT AJ32?

A. Yes. As a result of minor storms over the last few years, the Company currently has an unrecovered balance of $40.3 million in its storm reserve. ELL is proposing to recover this amount over the next ten years by collecting an additional $4.0 million per year from customers.

Q62. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY AT THIS TIME?

A. Yes, at this time.

AFFIDAVIT

STATE OF LOUISIANA

PARISH OF ORLEANS

NOW BEFORE ME, the undersigned authority, personally came and appeared, **RYAN E. O'MALLEY**, who after being duly sworn by me, did depose and say:

That the above and foregoing is his sworn testimony in this proceeding and that he knows the contents thereof, that the same are true as stated, except as to matters and things, if any, stated on information and belief, and that as to those matters and things, he verily believes them to be true.

Ryan E. O'Malley

SWORN TO AND SUBSCRIBED BEFORE ME
THIS 28th DAY OF AUGUST 2023

NOTARY PUBLIC

My commission expires: at death

HARRY M. BARTON
Notary Public for the State of Louisiana
LA Bar No. 29751 - Notary ID 90845
Commission Issued For Life

MOODY'S
INVESTORS SERVICE

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

Global Credit Research - 31 Jan 2014

Approximately $11 Billion of Debt Securities Upgraded

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

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

RATINGS RATIONALE

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

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

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

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

effective as of September 2013. LTM third-quarter 2013 metrics further justify the rationale, with Cash Flow Interest Coverage of 4.6x and CFO pre-WC to debt of 19%.

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

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

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

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

Rating Outlook

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

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

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

What Could Change the Rating - Up

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

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

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

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

What Could Change the Rating - Down

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

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

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

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

The following ratings of Entergy Gulf States Louisiana are upgraded:

Issuer Rating to Baa1 from Baa2

Preference Stock to Baa3 from Ba1

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

First Mortgage Bonds to A2 from A3

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

The following ratings of Entergy Louisiana are upgraded:

Issuer Rating to Baa1 from Baa2

Senior Unsecured to Baa1 from Baa2

Pref. Stock to Baa3 from Ba1

Backed First Mortgage Bonds to A2 from A3

Underlying First Mortgage Bonds to A2 from A3

First Mortgage Bonds to A2 from A3

The outlook of Entergy Louisiana is stable from RUR-UP

The following rating of W3A Funding Corporation has been upgraded:

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

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

The following ratings of Entergy Mississippi are upgraded:

Issuer Rating to Baa2 from Baa3

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

Pref. Stock to Ba1 from Ba2

Underlying First Mortgage Bonds to A3 from Baa1

First Mortgage Bonds to A3 from Baa1

Backed First Mortgage Bonds to A3 from Baa1

The outlook of Entergy Mississippi is stable from RUR-UP

The following ratings of Entergy Texas are upgraded:

Issuer Rating to Baa3 from Ba1

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

First Mortgage Bonds to Baa1 from Baa2

The outlook of Entergy Texas is stable from RUR-UP

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

Issuer Rating, Confirmed at Baa2

Pref. Stock Preferred Stock, Confirmed at Ba1

Pref. Stock Shelf, Confirmed at (P)Ba1

Senior Secured First Mortgage Bonds, Confirmed at A3

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

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this rating action, and whose ratings may change as a result of this rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

Susana Vivares
Vice President - Senior Analyst
Corporate Finance Group
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

William L. Hess
MD - Utilities
Corporate Finance Group
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

MOODY'S
INVESTORS SERVICE

RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS FOR RETAIL INVESTORS TO CONSIDER MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS IN MAKING ANY INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody's Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

MIS, a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MIS have, prior to assignment of any rating, agreed to pay to MIS for appraisal and rating services rendered by it fees ranging from $1,500 to approximately $2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moodys.com under the heading "Shareholder Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

For Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail clients. It would be dangerous for "retail clients" to make any investment decision based on MOODY'S credit rating. If in doubt you should contact your financial or other professional adviser.