SOAH DOCKET NO. 473-08-0334
PUC DOCKET NO. 34800

APPLICATION OF ENTERGY GULF	§	BEFORE THE
STATES, INC. FOR AUTHORITY	§	STATE OFFICE OF
TO CHANGE RATES AND TO	§	ADMINISTRATIVE HEARINGS
RECONCILE FUEL COSTS	§	

TESTIMONY OF

THEODORE H. BUNTING, JR.

ON BEHALF OF

ENTERGY GULF STATES, INC.

IN SUPPORT OF

NON-UNANIMOUS STIPULATION

MAY 23, 2008

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ENTERGY GULF STATES, INC.
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EXHIBITS

I. INTRODUCTION AND PURPOSE OF TESTIMONY

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Theodore H. Bunting. My business address is 639 Loyola Avenue, New Orleans, Louisiana 70113.

Q. DID YOU PREVIOUSLY FILE DIRECT AND REBUTTAL TESTIMONY ON BEHALF OF ENTERGY GULF STATES, INC. ("EGSI" OR "THE COMPANY") IN THIS PROCEEDING?

A. Yes, I did.

Q. WHAT IS THE PURPOSE OF THIS NEW TESTIMONY?

A. The purpose of this testimony is to discuss the overall financial results of the Non-Unanimous Settlement ("NUS") reached by the Company and certain other intervening parties. To provide relevant context for my discussion, I first summarize the Company's current financial condition and discuss its recent financial results. I then discuss the overall financial impacts that result from the NUS.

Q. DO YOU SPONSOR ANY EXHIBITS OR SCHEDULES IN THIS FILING?

A. Yes. I sponsor the Exhibit listed in my Table of Contents.

II. EGSI'S CURRENT FINANCIAL CONDITION

Q. CAN YOU PLEASE RECAP THE COMPANY'S CURRENT FINANCIAL CONDITION VIEWED FROM THE INVESTOR PERSPECTIVE?

A. Yes. My direct testimony emphasized the need for improvement in the Company's financial condition to address ongoing challenges including: 1) continuing preparation for the potential transition to competition in the Company's service area; 2) a substantial capital improvements program involving $415 million in additional capital expenditures in 2007-2009; 3) the Company's exposure to event risk from catastrophic storms and the impact of that exposure on its access to capital; and 4) the ability to refinance $1 billion of long term debt on reasonable terms. These financial challenges provide important perspective when considering the Company's financial condition from the perspectives of both equity investors and debtholders.

My direct and rebuttal testimony, as well as the direct testimony of Company witness Jay Lewis and the rebuttal testimony of Company witness Steven Fetter, address both the credit and equity perspectives. In brief, from the equity investor perspective, as reported in Table 1 to the direct testimony of the Company's Vice President and Chief Financial Officer, Utility Operations Group, Jay Lewis, the Company has not earned its authorized return in any year since 1999. While its current authorized return on equity is 10.95%, its earned average return for the period 1999-2006 was only 7.83% and its earned average return on equity for the period 2004-2006 was only 7.07%. Clearly, the Company's current rates have not resulted in a reasonable return for equity investors.

In addition, as supported by the rebuttal testimony of Mr. Fetter, 1) the credit profile for the Company's Texas operations is relatively weak for an integrated utility, 2) that weak profile remains the status quo after completion of the Company's jurisdictional separation, and 3) without a rate increase, the Company's financial integrity would be harmed. The Company's secured and corporate issuer bond ratings straddle the divide between investment and non-investment grade while rating agencies such as Moody's have emphasized that a "key driver" of the Company's credit rating will be the outcome of this proceeding.[1]

Finally, the cash flow analysis (on a Texas Retail basis) I provided in my rebuttal testimony provides evidence that, without a rate increase in this case, the Company faces a very large ($82 million) deficit in the amount of cash flow available to finance the ongoing infrastructure improvements needed to continue to support reliable service.

Q. WHAT IS THE CONCLUSION YOU DRAW FROM THIS FINANCIAL PICTURE?

It is fair to say that this rate case represents a financial turning point for the Company. The result in the case will determine whether the

1 Moody's Credit Opinion: Entergy Gulf States, Inc. (8-May-2007).

Company, after a long period of sub-standard equity returns and prolonged weakness in its overall financial condition, can begin the process of improving that condition.

III. OVERALL FINANCIAL IMPACT OF THE NUS

Q. PLEASE COMPARE THE OVERALL RESULT OF THE NUS TO THE COMPANY'S FILED CASE.

A. The Company's filed case called for a $64.3 million base rate increase. In combination with the riders requested by the Company, the revenues from Miscellaneous Electric Services, and offsetting the elimination of the Company's Incremental Purchased Capacity Rider ("IPCR"), the total revenue increase was approximately $112.5 million. This increase reflected an 11% return on equity, as supported by the direct and rebuttal testimony of Company witness Samuel C. Hadaway.

The NUS provides for a two step rate increase. The first step is $42.5 million, and is effective the first billing cycle of October 2008. The second step is $17 million, and is effective the first billing cycle of October 2009. As shown in the testimony of Company witness J. David Wright in support of the NUS (reflecting base rates, riders, and the elimination of the IPCR), the cumulative revenue requirement increase after the second step rate increase is approximately $54.2 million. This is approximately 48% of the Company's total filed request.

Q. WHAT RETURN ON EQUITY RESULTS FROM THE NUS RATE INCREASE?

A. As discussed in the testimony of Company witness J. David Wright, strictly within the context of the overall set of compromises and benefits that result from the NUS, the Company is assuming a return on equity of 9.95%. This ROE is comparable to the recommendations of TIEC witness Gorman (9.96%) and Staff witness Cutter (10.07%). The ROE resulting from the NUS falls short of a market-competitive return on equity, as discussed in the testimony of Dr. Hadaway. However, as I next explain, the cash flows from the NUS rate increase do provide for material improvement in the Company's financial condition and increased liquidity and financing capability, and thus the NUS is an important step in improving the Company's financial condition.

Q. WHAT ARE THE CASH FLOW IMPACTS ASSOCIATED WITH THE NUS RATE INCREASE?

A. The $59.5 million rate increase should provide additional cash flow of approximately $36 million on an after-tax basis. The cash flow scenarios that I included in my rebuttal testimony provide a reasonable point of comparison for purposes of assessing the NUS cash flow outcome, and I have attached those scenarios again as Exhibit THB-S-1 to my testimony.

Consideration of the NUS increase in conjunction with the "without rate increase" cash flow scenario in Exhibit THB-S-1 indicates that the additional cash flow of approximately $36 million from the NUS rate increase would reduce the cash flow deficit in relation to the "without rate increase" cash flow scenario. The NUS result, however, still results in a deficit cash flow position. Accordingly, despite the NUS rate increase, the Company will likely need to access the capital markets in order to finance infrastructure improvements.

Q. WHAT IS THE LIKELY EFFECT OF THE NUS RATE INCREASE ON THE COMPANY'S CREDIT RATING?

A. In all likelihood, the NUS increase should be viewed as an encouraging development by rating agencies and the credit markets, although it falls short of the Company's requested level of rate relief. As I mentioned above, developments in this case are monitored by rating agencies such as Moody's, which has identified the outcome of the case as a key element of its credit rating analysis. The NUS provides a settled result acceptable to the Company and the other NUS Signatories, and it contributes materially to improvement in cash flow, which is one of the most important elements of the credit rating process. In sum, it is reasonable to expect that the NUS rate increase will help to solidify the Company's current credit ratings, whereas the absence of a rate increase, or a rate decrease, would threaten those ratings. In short, the NUS rate increase represents a solid step for the Company on the road to financial health.

Q. DO YOU HAVE ANY ADDITIONAL COMMENTS ON THE MANNER AND TIMING OF THE REVENUE INCREASES RESULTING FROM THE NUS?

A. Yes. Company witness Bruce M. Louiselle addresses how Rough Production Cost Equalization ("RPCE") payments are implemented in connection with the NUS. However, from an overall financial perspective, it is important to understand that the NUS allows the Company to retain an additional amount of RPCE payments of $17 million effective with the first billing cycle of January 2009. This situation continues, however, only until the second step rate increase in October 2009, at which time base rates are increased by $17 million, and the additional $17 million retention of RPCE payments ceases. The retention of additional RPCE payments from January – September 2009 allows the Company to bridge the financial gap between the first and second steps of the rate increase. It provides the Company with the opportunity to improve its financial condition in the manner I just discussed at the outset of 2009, instead of delaying that improvement to the time of the second step rate increase in October of 2009.

Q. WHAT IS YOUR ASSESSMENT OF THE OVERALL RESULTS OF THE NUS RATE INCREASE?

A. The NUS represents an overall compromise and settlement of many competing interests and concerns of its Signatories. As Company witness Louiselle discusses, its reasonableness should be judged in light of its overall impacts. The NUS provides material improvement to the Company's financial condition, should allow it to strengthen its financial integrity, and provides overall rate levels acceptable to the NUS Signatories and the customer interests they represent. At the same time, as the Company moves forward, its still faces significant financial challenges and a cash flow deficit that will require continued ability to access the capital markets on reasonable terms. Though the NUS rate increase by no means eliminates these challenges, it should position the Company to maintain that reasonable access.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

Entergy Gulf States, Inc.
Texas Retail
(Dollars in Thousands)

	Without Rate Increase	With Rate Increase	Without Rate Increase Net of Staff's Proposed Adj.	Without Rate Increase Net of Cities' Proposed Adj.
Operating Income After-Tax (Schedule P)	110.3	151.5	82.3	85.8
Less: Interest Expense	56.2	56.2	56.2	56.2
Less: Preferred Dividends	1.7	1.7	1.7	1.7
Cash Common Equity Return	52.4	93.6	24.4	27.9
Return on Common Equity	6.16%	11.01%	2.87%	3.28%
Cash Common Equity Return	52.4	93.6	24.4	27.9
Plus: Depreciation Expense	86.6	86.6	86.6	72.0
Free Cash Flow	139.0	180.2	111.0	99.9
Less: Dividends to Parent	82.9	82.9	82.9	82.9
Free Cash Flow After Dividends	56.1	97.3	28.1	17.0
Less: Capital Expenditures	138.3	138.3	138.3	138.3
Remaining Cash	(82.2)	(41.0)	(110.2)	(121.3)