BEFORE THE ARKANSAS PUBLIC SERVICE COMMISSION

IN THE MATTER OF A SHOW CAUSE ORDER )
DIRECTED TO ENTERGY ARKANSAS, INC. )
REGARDING ITS CONTINUED MEMBERSHIP )
IN THE CURRENT ENTERGY SYSTEM )
AGREEMENT, OR ANY SUCCESSOR )
AGREEMENT THERETO, AND REGARDING )
THE FUTURE OPERATION AND CONTROL OF )
ITS TRANSMISSION ASSETS )

DOCKET NO. 10-011-U

SUPPLEMENTAL DIRECT TESTIMONY

OF

HUGH T. MCDONALD

PRESIDENT AND CHIEF EXECUTIVE OFFICER

ENTERGY ARKANSAS, INC.

ON BEHALF OF

ENTERGY ARKANSAS, INC.

JANUARY 11, 2012
I. INTRODUCTION

Q. PLEASE STATE YOUR NAME.
A. My name is Hugh T. McDonald.

Q. ARE YOU THE SAME HUGH T. MCDONALD WHO HAS FILED TESTIMONY ON SEVERAL OCCASIONS PREVIOUSLY IN THIS DOCKET?
A. Yes.

Q. ON WHOSE BEHALF ARE YOU TESTIFYING?
A. I am submitting this supplemental direct testimony to the Arkansas Public Service Commission (“APSC” or the “Commission”) on behalf of Entergy Arkansas, Inc. (“EAI” or the “Company”).

Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL DIRECT TESTIMONY?
A. In Order No. 54 in this docket, the APSC directed the Company “to file a concrete, integrated plan for EAI’s post-ESA [Entergy System Agreement\(^1\)]

\(^1\) The System Agreement is a rate schedule approved by the Federal Energy Regulatory Commission and contract entered into among Entergy Services, Inc. (“ESI”) and the Operating Companies, which requires the Operating Companies to plan, construct and operate their generation and bulk transmission facilities as a single, integrated electric system. On December 19, 2005, EAI gave notice that it will terminate its participation in the System Agreement effective December 18, 2013. ESI is a subsidiary of Entergy Corporation that provides technical and administrative services to all the Operating Companies. The Entergy Operating Companies include EAI; Entergy Gulf States Louisiana, L.L.C.; Entergy Louisiana, LLC; Entergy Mississippi, Inc.; Entergy New Orleans, Inc.; and Entergy Texas, Inc.
reorganization, independent of the other OpCos [Operating Companies],
including generation planning, resource acquisition and all other aspects
of its utility operations excluding transmission...no later than January 11,
2012.... The Commission further stated:

EAI should file its detailed plans including timelines for
implementation, costs associated with implementation, and
details regarding personnel to provide all transition services
in addition to all other pertinent information for its entire utility
operations post-ESA for consideration by the Commission.
[footnote omitted]. Those plans shall be filed, with supporting
testimony, on or before January 11, 2012, for all matters not
addressed by EAI’s request to transfer operational control of
its transmission assets to an RTO and a report regarding
EAI’s efforts and plans for post-ESA transmission
infrastructure planning on an EAI-only basis. 3

The purpose of my supplemental direct testimony is to provide an
overview of the process that EAI will use for generation resource planning
and operations after its participation in the System Agreement ends. EAI
witness Kurtis W. Castleberry will provide additional details on this
process and detailed plans about EAI’s post-System Agreement
operation, including how the Company will operate within the Midwest
Independent Transmission System Operator, Inc. (“MISO”) Regional
Transmission Organization (“RTO”).

2 Order No. 54 at 3.
3 Id. at 5.
II. OVERVIEW OF EAI RESOURCE PLANNING PROCESS

Q. YOU HAVE TESTIFIED PREVIOUSLY THAT AFTER EAI’S PARTICIPATION IN THE SYSTEM AGREEMENT ENDS, GENERATION RESOURCE DECISIONS WILL BE MADE BASED UPON THE NEEDS OF EAI’S CUSTOMERS. WHAT PROCESS WILL YOU USE TO MAKE THOSE DECISIONS?

A. Generally, the President and Chief Executive Officer of EAI will be responsible for generation resource planning decisions. Because resource planning decisions typically involve analyses comparing various options under various scenarios assuming differences in key variables, I have established an advisory committee called the Resource Planning and Operations Committee (“RPOC”) to provide a forum to support EAI’s planning process.

Q. WHY IS THE RPOC NEEDED?

A. EAI has operated for more than 50 years as part of a closely integrated power pool with the other Operating Companies under the terms of the System Agreement. As part of that operation, resource planning for EAI was coordinated with the other Operating Companies through an Operating Committee defined by the System Agreement. The Operating Committee was the focal point for decisions related to generation and transmission planning for all the Operating Companies, and the Operating...
Committee made decisions based upon optimizing the result for the entire electric system that included all the Operating Companies.

The RPOC provides the organizational structure and discipline for the review and discussion of business issues and studies regarding EAI resource planning and operations for EAI’s post-System Agreement operations from an EAI-only perspective, which will be the basis for resource planning and operational decisions after EAI’s participation in the System Agreement ends.

Q. PLEASE PROVIDE AN OVERVIEW OF THE RPOC.

A. The RPOC is the group of experts who will provide analysis, support, and advice to the EAI President and CEO for EAI’s resource planning and supply operations processes. The RPOC will provide input and make recommendations on issues related to the planning, construction, and operation of EAI’s generation and transmission facilities so that I, as President and CEO of EAI, can make informed decisions about the Company’s resource plans within Entergy Corporation’s corporate governance policies. A copy of the RPOC guidelines is attached to my testimony as EAI Exhibit HTM-7. Mr. Castleberry describes in his supplemental direct testimony the workings of the RPOC in more detail.
Q. YOU STATED THAT YOUR DECISIONS ARE MADE WITHIN THE ENTERGY CORPORATION CORPORATE GOVERNANCE PROCESS. PLEASE EXPLAIN THAT PROCESS.

A. Corporate governance refers to the processes, policies, and laws that guide how a company is managed to ensure accountability and minimize risk. As with most companies, Entergy Corporation has procedures that define the decision-making authority and approval processes needed for various levels of financial commitments. These procedures are designed to ensure that decisions are made at the appropriate level within the organization and based on sound judgment to contribute to the long-term success of the company. For example, these corporate governance policies limit the expense and capital expenditure authority of an Operating Company president to $10 million. Entergy Corporation Board of Directors approval is required for capital expenditures above $75 million. Generation resource decisions can routinely involve expenditures much greater than $10 million, which would require approval by individuals in higher positions in Entergy Corporation up to and including the Board of Directors.

Q. WILL EAI BE PREPARED TO INTEGRATE WITH MISO BY DECEMBER 2013?

A. The Company is on track with its implementation efforts, but there are many challenges yet to overcome. Mr. Castleberry provided an update of
the implementation efforts in his January 6, 2012 testimony. EAI has completed the development of its Transition Plan and is now in the early stages of implementing the Transition Plan, which will continue until December 2013 and require intensive effort and major resource commitments to assure continued, reliable operations beginning December 19, 2013, when EAI’s participation in the System Agreement ends. This phase of the transition effort will require EAI to make timely decisions related to its implementation initiatives. These initiatives span the scope from developing the needed IT systems to integrate with MISO’s business operations to securing the generating capacity and fuel supplies needed to meet the needs of EAI’s customers. Further, the Company’s proposal to acquire the Hot Spring Plant, now pending before the Commission, and the acquisition of short-term capacity coming out of EAI’s 2011 Request For Proposals (“RFP”), for which EAI will seek cost recovery early this year, are vital to EAI’s transition to post-System Agreement operations under all scenarios of the implementation plan.

I am focused on the resource commitments that are needed to continue maintaining two alternatives: the EAI to MISO alternative and the EAI as a separate Balancing Authority (“BA”) while continuing under an ICT Arrangement. I have testified previously that the fall-back option of continuing under an ICT arrangement with an EAI BA is consuming resources and represents a significant implementation risk. Any steps that would reduce or eliminate the continued pursuit of multiple options and
paths for EAI’s December 2013 operations would reduce complexity, costs, and implementation risks. This risk can be mitigated with an APSC action by June 2012 approving the Company’s application in this docket to transfer functional control of its transmission assets to MISO. With the certainty provided by an APSC order in June 2012, EAI will know that on December 19, 2013, it will either begin operations as part of the MISO RTO, or, as discussed more fully in the testimony of Mr. Castleberry, that MISO will provide temporary bridging arrangements until such time as EAI can be completely integrated into MISO.

Q. DOES THAT CONCLUDE YOUR 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 by forwarding the same by electronic mail and/or first class mail, postage prepaid, this 11th day of January 2012.

/s/ Steven K. Strickland
Steven K. Strickland
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DOCKET NO. 10-011-U

EAI EXHIBIT HTM-7

GUIDELINES FOR THE ENTERGY ARKANSAS, INC.
RESOURCE PLANNING AND OPERATIONS COMMITTEE
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ENTERY ARKANSAS, INC.
RESOURCE PLANNING AND OPERATIONS COMMITTEE

I. OVERVIEW

Entergy Arkansas, Inc. (“EAI” or the “Company”) has provided the required notice under the Entergy System Agreement to terminate its participation in that contract, and will commence post-System Agreement operations on December 19, 2013, separate from the other Entergy Operating Companies. Accordingly, the Company has established a process pursuant to which it will plan and operate its generation and transmission facilities. To support the EAI President and CEO in this role, the Company has established the EAI Resource Planning and Operations Committee (“RPOC”) to advise the EAI President and CEO regarding the planning and operations of the Company’s generation resources and to identify and evaluate transmission projects that could be economically beneficial to EAI customers post-System Agreement operations.

Although EAI is subject to the terms of the System Agreement until December 19, 2013, resource procurement lead times and the nature of electric utility planning and operations require that EAI must conduct implementation, planning, and procurement activities to prepare for post-System Agreement operations, and to arrange the supply resources and make other arrangements needed for the Company to operate apart from the other Operating Companies. Accordingly, EAI has implemented the RPOC well in advance of December 19, 2013.

These guidelines set forth the roles and responsibilities for the RPOC. These roles and responsibilities will be reviewed periodically to determine whether revisions are necessary to meet changing conditions or unanticipated circumstances.
II. COMPOSITION AND DUTIES OF THE RPOC

A. Membership

The EAI RPOC Members will be designated by the EAI President and CEO and shall include at least three senior members of the EAI management staff with duties relating to the Company’s generation and transmission resource planning, the operation of the Company’s facilities, the regulatory affairs of the Company, the Company’s compliance requirements, the Company’s financial management and fiduciary controls, or any other EAI function as determined by the EAI President and CEO.

Additional RPOC Members also will be designated by the EAI President and CEO and will include senior management representatives of certain external support organizations, such as Entergy Services, Inc. (“ESI”) and Entergy Operations, Inc. (“EOI”), who, under EAI’s direction, provide critical support services for the resource planning and operation of the Company’s generation facilities.

B. Executive Sponsor

The EAI President and CEO shall serve as the Executive Sponsor for the RPOC and make decisions related to resource planning and operations required to meet the needs of EAI and its customers.

C. Officers

The RPOC shall have the following officers with duties as designated:

(i) Chairman - The Chairman shall call for and preside at meetings of the RPOC. He or she shall have responsibility for the general coordination of the RPOC
functions among the various members. The EAI Director of Resource Planning and Operations shall serve as the Chairman of the RPOC.

(ii) **Vice Chairman** - The Chairman shall designate a Vice Chairman to perform the duties of the Chairman in his absence or incapacity.

(iii) **Secretary** - The Secretary shall prepare, distribute and maintain minutes of RPOC meetings. The Chairman shall designate EAI legal counsel to serve as Secretary.

**D. Timing of Meetings**

The RPOC shall hold meetings at any time as determined necessary by the Chairman.

**E. RPOC Duties and Scope of Responsibility**

(i) **General**

The RPOC shall:

1. provide oversight and review of the functions required for EAI’s resource planning and operations, its interactions and commercial arrangements in the wholesale markets, and those related activities required for administrative or business planning purposes.

2. provide guidance and input regarding the development and implementation of EAI’s Transition Plan for operations beginning December 19, 2013.

3. provide guidance and input to EAI Planning Staff, and where appropriate, provide advisory recommendations to the EAI President and CEO.

(ii) **Specific**
The RPOC shall review and provide advisory input and recommendations to the EAI President and CEO regarding the following:

(1) EAI Planning Staff plans, forecasts and projections, processes, and study results relating to the development of the Company’s integrated resource supply plans and resource operations plans.

(2) information technologies and systems and associated communication facilities, and other facilities necessary for the supply of capacity and energy, including those associated with demand side resources.

(3) standards that may be required for the safe and reliable operation of the Company’s facilities.

(4) activities or services provided through the use of external support services, including ESI and EOI, in providing support and analyses to EAI Planning Staff or to provide operational execution or support on behalf of EAI.

(5) the EAI processes and arrangements for negotiations with others from time to time for interchange and sale of power and energy.

(6) the EAI processes and arrangements for the sale and delivery to others of power and energy not required for Company purposes.

(7) the EAI processes and arrangements for monitoring of environmental factors as they affect the operation of the Company’s facilities in order to comply with all environmental permits.

(8) any other duties that may from time to time be assigned to it or deemed appropriate by the EAI President and CEO.
III. EAI PLANNING STAFF SUPPORT OF RPOC AND EAI GOVERNANCE OF BUSINESS DECISIONS

A. Resource Supply Planning and Operations

The EAI Planning Staff shall:

(i) furnish the RPOC, at the time and in the manner designated, forecasts, projections, studies, and other information required to support the development of EAI’s integrated resource plans and the supply operations plans for EAI.

(ii) determine and provide to the RPOC an integrated resource plan, including generation additions, demand-side initiatives, and purchases of capacity and energy to provide capacity for the projected load and furnish reliable service to customers at the lowest reasonable cost consistent with good utility practice.

(iii) determine and provide to the RPOC the operational plans and procedures required for the operation of EAI’s supply resources, the management of EAI assets and operational risks, and other EAI operational interactions with the wholesale market and the RTO/ICT.

(iv) determine and provide to the RPOC operational plans and procedures regarding administrative and other operational support associated with EAI’s participation in the wholesale capacity and energy market.

(v) conduct specific analyses or evaluations as requested by the RPOC.

B. Transmission Planning

To the extent applicable based upon OATT provisions, the EAI Planning Staff shall:
(i) conduct or participate in studies of bulk power transmission facilities and transmission delivery arrangements to serve the needs of EAI’s retail and wholesale supply customers.

(ii) develop and/or evaluate potential transmission expansion projects and arrangements for consideration under applicable RTO/ICT planning processes that will support reliable service to EAI’s load, support the resource plan and/or provide economic benefits to EAI’s customers.