BEFORE THE
ARKANSAS PUBLIC SERVICE COMMISSION

IN THE MATTER OF THE APPLICATION	**)**	
OF ENTERGY ARKANSAS, INC. FOR	**)**	**DOCKET NO. 15-015-U**
APPROVAL OF CHANGES IN RATES FOR	**)**	
RETAIL ELECTRIC SERVICE	**)**	

DIRECT TESTIMONY

OF

GRANT TENNILLE

ON BEHALF OF

ARKANSAS ELECTRIC ENERGY CONSUMERS, INC.

SEPTEMBER 29, 2015

I. INTRODUCTION AND BACKGROUND

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Grant Tennille. My address is 20 River Valley Road, Little Rock, AR 72227.

Q. BY WHOM ARE YOU EMPLOYED AND WHAT IS YOUR POSITION?

A. I am self-employed as a communications, development and political consultant. The name of my company is Bering Strategic Advisors.

Q. ON WHOSE BEHALF ARE YOU TESTIFYING?

A. I submit this Direct Testimony on behalf of Arkansas Electric Energy Consumers, Inc. (hereinafter "AEEC"). AEEC's members include many industrial organizations that operate energy-intensive facilities in Arkansas. I understand that all of them purchase electricity from Entergy Arkansas, Inc. (hereinafter "EAI").

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

A. I graduated in 1992 from Kenyon College in Gambier, Ohio, with a Bachelor of Arts Degree in English. From 1992-1996, I was employed by the Arkansas Democrat-Gazette in various capacities including work in the State Capital Bureau. In 1996, I joined the communications staff of Arkansas Governor Mike

Huckabee and later worked on his behalf at the Arkansas Game and Fish Commission. In 1998, I joined The Thompson Group, a Little Rock-based public relations advertising firm, where I worked until 2001, primarily in the area of telecommunications consulting for companies such as AT&T and Qwest Communications, Inc. In 2001, I became the Senior Director for Public Policy, Planning and Advocacy for Qwest in Denver, Colorado. In 2005, I left Qwest to become the Vice President of Marketing for the Distribution Point, a Birmingham, Alabama based start-up company specializing in master distribution of building materials. In 2007, I joined the staff of Arkansas Governor Mike Beebe as interim communications director. I worked on Governor Beebe's staff until 2012, when I was appointed executive director of the Arkansas Economic Development Commission (hereinafter "AEDC"). Upon the inauguration of Governor Asa Hutchinson in January 2015, I left AEDC and founded my consulting firm, Bering Strategic Advisors. Throughout my career, I have provided communications, political, and business counsel to elected officials and companies both large and small.

Q. WHAT ARE THE DUTIES AND RESPONSIBILITES OF YOUR FORMER POSITION AS EXECUTIVE DIRECTOR OF AEDC?

A. In my former capacity as executive director of AEDC, I supervised and coordinated a staff of approximately 100 professionals who work to implement programs designed to further the attainment of five goals for economic development in Arkansas:

1. Increase the incomes of Arkansans at a growth pace greater than the national average.
2. Expand entrepreneurship, focusing on knowledge-based enterprises.
3. Compete more effectively in the global marketplace for new business and jobs, and create a business retention strategy to reduce closures.
4. Economic development will meet the special needs and take advantage of the extraordinary assets of various areas of the state. It will not be a one size fits all.
5. Increase the number of workers with post-secondary training so they are prepared when they enter the workforce and equipped for new jobs in the future.

Chief among my previous duties was leading AEDC's efforts to attract job-creating business investment to Arkansas, both in the new form of new business locations in the state and expansion of existing industries.

The Consolidated Incentives Act and the Governor's Quick Action Closing Fund provide the tools to incent companies to make those investments, and the AEDC's Business Development Division leads those negotiations with individual companies. A few of Arkansas's incentives are statutorily available to any qualified company, but most incentive packages are negotiated. I supervised those negotiations and made recommendations to Governor Beebe, who had the ultimate authority and final approval over all incentive-package offers.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. My testimony supports certain aspects of the application filed with the Arkansas Public Service Commission (hereinafter "APSC" or "Commission") in this docket by EAI requesting approval of changes in rates for retail electric service. First, I will identify and describe legislation passed by the Arkansas General Assembly in 2015 that has motivated EAI to propose certain changes to its rates in this docket. Second, I will describe my understanding of AEDC's role in economic development in Arkansas. Third, I will describe the prospects for future economic development and job creation or retention resulting from certain aspects of EAI's application requesting approval of changes in rates for retail electric service.

<u>II.</u> <u>ACT 725 OF 2015</u>

Q. DID THE ARKANSAS GENERAL ASSEMBLY ENACT LEGISLATION DURING THE 2015 SESSION THAT HAS CAUSED EAI TO PROPOSE CERTAIN CHANGES TO ITS RATES?

A. Yes. According to some of EAI's witnesses in this docket, including Michael L. Maulden and Myra L. Talkington,[1] EAI proposes to change its production

[1] Direct Testimony of Myra L. Talkington, APSC Docket No. 15-015-U, Doc. 45, at page 27, lines 4-12.

demand cost allocator "consistent with considerations in Act 725 of 2015."[2] Ms. Talkington also testified that EAI designed rates in this docket consistent with a rate design principle contained in Act 725.[3] Mr. Maulden also states that EAI's proposed rate design "will be beneficial to economic development and the creation of employment opportunities in the state."[4]

Q. WHAT IS YOUR UNDERSTANDING OF ACT 725 OF 2015?

A. Although I am not an attorney, I believe, based upon the emergency clause in Act 725, that the General Assembly enacted Act 725 of 2015 to provide the APSC with additional tools the APSC can utilize to assist the State of Arkansas's overall efforts to attract industrial investment to Arkansas, and to retain existing industrial investment. The emergency clause in Act 725 states:

> It is found and determined by the General Assembly of the State of Arkansas that…*there is a need to address the allocation of costs and design of rates*; that there is a need to maintain stable rates and to mitigate the magnitude of future rate changes; and that *affordable electricity and natural gas encourage economic activity within the state and benefit the state's industries to increase the*

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[2] Direct Testimony of Michael L. Maulden, APSC Docket No. 15-015-U, Doc. 54, at page 26, lines 23-24.

[3] Direct Testimony of Myra L. Talkington, APSC Docket No. 15-015-U, Doc. 45, at pages 51-52.

[4] Direct Testimony of Michael L. Maulden, APSC Docket No. 15-015-U, Doc. 54, at pages 4, 16.

> *number of available jobs and to attract new businesses and industries to the state*.[5]

Based upon that language, I believe the General Assembly recognized that the APSC can assist the State's overall efforts to attract and retain industrial investment by implementing certain policies regarding the electricity and natural gas rates paid by large consumers.

Q. DO YOU SUPPORT EAI'S USE OF THE COST ALLOCATION AND RATE DESIGN METHODS IDENTIFIED IN ACT 725 OF 2015?

A. Yes. I agree with Mr. Maulden. EAI's proposed cost allocation and rate design changes will benefit economic development in Arkansas and promote employment opportunities within Arkansas.

Q. WHY DO YOU AGREE WITH MR. MAULDEN?

A. In my former role as executive director of AEDC, I was involved in hundreds of negotiations, conversations, and discussions wherein I attempted to either attract new industries to Arkansas or retain or expand existing industrial facilities in Arkansas. In almost all of those negotiations or discussions, the price of energy inputs, especially the price of electricity, played a major role. Businesses considering locating a facility in Arkansas or expanding an existing facility in Arkansas will often raise issues regarding the price of energy inputs with AEDC. Often, concerns regarding the price of energy inputs serve as a kind of "threshold"

[5] Act 725 of 2015, § 4.

issue; if AEDC cannot adequately address those concerns through cooperation with the state's utilities, the business will immediately shut down negotiations with Arkansas and target another location in a state with more beneficial energy prices. Based upon my experience negotiating with industry representatives as executive director of AEDC, I agree with the General Assembly, EAI, and Mr. Maulden that utilizing new policies to derive reasonable energy prices for large electricity and natural gas consumers will encourage economic development and promote employment opportunities in Arkansas.

III. THE ROLE OF AEDC AND THE IMPACT OF ENERGY PRICES

Q. PLEASE DESCRIBE AEDC'S OVERALL ECONOMIC DEVELOPMENT ROLE IN ATTRACTING INDUSTRY TO ARKANSAS.

A. AEDC is the state's leading economic development agency, whose primary objectives are to foster a sound and successful economic environment, create high-paying jobs for Arkansas citizens, and advance efforts to increase the tax-base for Arkansas. AEDC does this, in part, by working with industry officials considering Arkansas for the future location of a facility. These efforts require that AEDC work closely with local officials and utility representatives.

Q. CAN YOU PROVIDE AN EXAMPLE OF A FACILITY SITING PROCESS IN WHICH THE PRICE OF ELECTRICITY PLAYED A MAJOR ROLE?

A. As I've previously stated, I've participated in numerous negotiations and discussions with business and industry leaders regarding the location or expansion of facilities in Arkansas. In almost all of those negotiations and discussions, the industry representatives or business leaders would discuss the price of energy inputs as a major factor in the siting decision. The best, most prominent example, however, is the negotiations that brought Big River Steel (hereinafter "BRS") to Arkansas.

Q. PLEASE DESCRIBE THE AEDC'S ROLE IN OBTAINING BRS' COMMITMENT TO LOCATE ITS OPERATIONS IN ARKANSAS.

A. Discussions with the principals involved in what would become Big River Steel, then code named "Project Zap" to preserve confidentiality, began in the first quarter of 2012 when a representative of BRS approached the AEDC to request a meeting with Governor Beebe. In that meeting, the BRS representative explained that he and a group of investors were looking for a location in the South Central United States to construct and operate a steel mini-mill similar to the mill located near Columbus, Mississippi, under the name Severcor. The BRS representative briefly described the project's needs, but was adamant that the one criteria that outweighed all others was a competitive electric rate.

Following that meeting, I contacted representatives from EAI to determine whether EAI might be able to provide electric service within the terms defined by the BRS representative. EAI agreed to work with AEDC and BRS to attempt to identify a site and reach agreement on terms for service that would allow BRS to locate in Arkansas.

In the months that followed, AEDC, EAI, and various local community partners identified sites in Arkansas that would meet the project's specifications and engaged in the process of attempting to qualify those sites by performing preliminary due diligence to determine what barriers might exists to locating the project and the costs required to mitigate or eliminate those barriers. Numerous issues affected site selection, including the distance from a river required to be traversed by a haul road for the delivery of scrap from barge to mill; flood control issues that would have to be mitigated by building new levees or improving old ones; and distance from main line rail, which would require the construction of rail spurs; distance from 500 kV power lines that would require the construction of new supply lines.

After months of evaluation, the project promoters selected the site near Osceola as the preferred location for the mill in Arkansas. I learned later that the promoters were also were considering in the final project location a site near Vicksburg, Mississippi.

Q. WHAT WERE THE FACTORS THAT DETERMINED THE FINAL LOCATION FOR THE PROJECT?

A. The promoters communicated that the final decisions would be determined by three factors:

1. The ability of BRS and EAI to reach a final deal on electric rates and infrastructure investment.
2. The State of Arkansas' ability to offer an incentives package that had been agreed upon.
3. The Burlington Northern-Santa Fe Railroad's ability to provide a competitive rail transport rate and to make investments in new infrastructure required.

Q. WAS AEDC SUCCESSFUL IN ADDRESSING THESE FACTORS?

A. Yes. AEDC and BRS reached agreement on the terms of incentives that the state would provide to BRS, subject to action by the Arkansas General Assembly. While AEDC was not a participant in the discussions between BRS and EAI or with BRS and the railroad, each of these negotiations was apparently completed to the satisfaction of BRS. BRS officials announced their intent to locate the steel mini-mill at the Osceola site in a press conference in the Governor's conference room on January 29, 2013.

Q. WAS BRS' COMMITMENT CONTINGENT UPON ANY ACTIONS?

A. Yes. The incentives provided by the state needed approval by the Arkansas legislature, and the Agreement between EAI and BRS was approved by the APSC.

Q. DO YOU BELIEVE IT WAS IN THE INTEREST OF THE STATE OF ARKANSAS FOR BRS TO LOCATE ITS MILL AT OSCEOLA?

A. Yes. The mill will be a significant employer and source of high-paying jobs, first in the construction phase, and then when the mill goes into production. The potential benefit to the state is evidenced by the incentive package that was offered to attract BRS.

Q. PLEASE DESCRIBE THE STATE'S INCENTIVE PROPOSAL TO BRS.

A. The incentives included a total of $125 million in Amendment 82 bonds that would help defray BRS' project costs in locating the steel mill in Mississippi County, an Arkansas income tax credit based upon a percentage of the annual payroll paid to the new full-time permanent employees hired as a result of an approved project, an income tax credit for the purchase of equipment used exclusively for reduction, reuse or recycling of solid waste material for commercial purposes, and the cost of installation of such equipment by outside contractors; also, the state will provide a full exemption of sale tax associated with the sale of natural gas and electricity for use in connection with steel mills that newly invest at least $500 million and create and maintain at least 300 new jobs paying an average annual wage of at least $70,000. These and other incentives were crucial to BRS' decision to locate its mill at Osceola.

Q. WHAT IS THE POTENTIAL FOR INDUSTRIAL GROWTH IN THE BRS AREA?

A. Steel mills of this size act as powerful magnets, attracting new businesses that will serve the mill as vendors of products or services or as customers who want to locate near the source of an important input.

Dr. John Shelnutt or the Arkansas Department of Finance and Administration predicted that the mill will generate 1,000 indirect jobs by 2017, with a predicted payroll of more than $25 million annually. That is in addition to the payroll of more than $38 million, annually, of the mill's 500 employees, which is the employment level projected at the end of BRS' expansion plans. These numbers do not include the impact that could be felt from mill customers who choose to locate near the mill to take advantage of a steady supply of steel and reduced transportation costs.

Q. IS THERE SOME HISTORICAL BASIS TO JUSTIFY AN EXPECTATION THAT OTHER INDUSTRIES WOULD LOCATE NEAR BRS?

A. Yes. One needs to look no further than Blytheville to know that these types of locations are a strong possibility. Tenaris, an Argentine pipe and tube manufacturer, located its facility within a few miles of the existing Nucor mill near Blytheville to have ready access to Nucor's steel. The AEDC and BRS quickly began pursuing potential customers for the BRS mill's output.

Q. ARE THERE OTHER INDUSTRIES THAT HAVE INVESTIGATED THE POSSIBILITY OF SITING OR EXPANDING FACILITIES IN ARKANSAS?

A. Yes. After AEDC and BRS completed their negotiations and BRS announced its intention to site its facility in Osceola, AEDC began to notice ongoing interest from various metals manufacturers. Many of these manufacturers are interested in Arkansas due to various factors, but energy rates are absolutely a huge factor in those decisions. Near the end of my term at AEDC, I made significant progress in negotiations with a large, international manufacturing prospect, and the price of power was a huge consideration in those negotiations, too, as it has been in almost all of the negotiations in which I participated.

Q. IF THE COMMISSION ADOPTS EAI'S PROPOSED CHANGES TO ITS RATES BASED UPON ACT 725, WILL IT ENHANCE AEDC'S ABILITY TO ATTRACT INDUSTRIAL INVESTMENT TO ARKANSAS?

A. Yes. Many of the industries that investigate the possibility of siting or expanding facilities in Arkansas are energy-intensive manufacturers, and they pay close attention to the regulatory environments in which they operate. Although we have previously had to focus on the negotiation of special rate contracts, as we did in the case of BRS, those negotiations are time-consuming, and many utilities are reluctant to engage in those negotiations on numerous occasions. Thus, the changes proposed by EAI offer a potential solution that AEDC can utilize to recruit and retain business and industry for Arkansas. In his Direct Testimony, Mr. Maulden states: "Arkansas law makers…have taken steps to help retain and attract industries with a pro-business culture by recognizing that a particular cost allocation methodology, A&E 4CP, reasonably allocates costs to large industrial customers thereby providing them with a more reasonably priced cost of electricity as part of their overall cost of doing business." Based upon my experience as the former executive director for AEDC, wherein I participated in numerous negotiations and discussions with business and industry leaders considering Arkansas as a potential location for energy-intensive facilities, I agree with Mr. Maulden's statement. The Commission's adoption of the rate design and cost allocation methods that the General Assembly specified in Act 725 will be beneficial to economic development and will promote employment opportunities in Arkansas.

Q. ARE YOU AWARE OF ANY OTHER SUPPORT FOR THIS CONCLUSION?

A. Yes. Mr. Maulden cites numerous studies in his Direct Testimony that have found a link between reasonable industrial energy rates and economic development. In addition, I understand that Ms. Katherine A. Deck, from the Center for Business and Economic Research at the University of Arkansas, has completed a study which also found a statistically significant correlation between energy prices and rates of manufacturing employment in Arkansas and the surrounding region.[6] This academic analysis further bolsters my conclusion.

[6] *See* Direct Testimony of Katherine A. Deck at 16.

Q. MS. DECK'S STUDY FOUND THAT A TEN PERCENT INCREASE IN INDUSTRIAL ELECTRICITY PRICES WILL RESULT IN A LOSS OF EIGHTY FOUR JOBS. TO WHAT LENGTHS WOULD THE AEDC GO TO RETAIN EIGHTY FOUR JOBS IN ARKANSAS?

A. During my tenure at AEDC, the agency was heavily involved in retention and expansion projects with companies of all sizes across virtually every sector of Arkansas's economy. For high-wage manufacturing jobs, particularly in rural areas and smaller communities where lost jobs would be more difficult to replace, we routinely offered retention packages with a total value of $10,000 per job, including cash and tax benefits.

Q. WILL ATTRACTING INDUSTRIAL INVESTMENT TO ARKANSAS HAVE SPILLOVER EFFECTS ON THE STATE'S ECONOMY?

A. Yes. As Ms. Deck notes in her direct testimony, "[d]irect job creation in an industry like manufacturing is accompanied by indirect (supply-chain oriented) and induced (personal expenditure oriented) job creation." Ms. Deck notes that these "multiplier effects" are "standard effect of economic development."[7] These statements from Ms. Deck's testimony are consistent with my experience as the former executive director of AEDC.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

[7] *Id.* at 14, lines 5-11.

CERTIFICATE OF SERVICE

I, Jordan Tinsley, hereby certify that, on September 29, 2015, I served a copy of the foregoing Direct Testimony upon all parties of record via electronic mail.

/s/ *Jordan B. Tinsley*