

**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

Entergy Services, Inc.,)
)
)
on behalf of the Entergy Operating) Docket No. RT01-_____
Companies: Entergy Arkansas, Inc., Entergy)
Gulf States, Inc., Entergy Louisiana, Inc.,)
Entergy Mississippi, Inc., and Entergy)
New Orleans, Inc.)

**TESTIMONY
OF
FRANK WILLIFORD
ON BEHALF OF
ENTERGY SERVICES, INC.**

October 16, 2000

1 Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND
2 OCCUPATION.

3 A. My name is Frank Williford. My business address is 639 Loyola Avenue, New
4 Orleans, Louisiana 70113. I am Director - Financings and Assistant Treasurer
5 for the domestic utility operating company subsidiaries of Entergy Corporation
6 (“Entergy”), including Entergy Arkansas, Inc. (“EAI”), Entergy Gulf States,
7 Inc. (“EGSI”), Entergy Louisiana, Inc. (“ELI”), Entergy Mississippi, Inc.
8 (“EMI”) and Entergy New Orleans, Inc. (“ENOI”) (collectively, the
9 “Operating Companies”) and for Entergy Services, Inc. (“ESI”).

10

11 Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?

12 A. I am testifying for ESI on behalf of the Operating Companies.

13

14 Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND,
15 PROFESSIONAL QUALIFICATIONS, AND PROFESSIONAL
16 EXPERIENCE.

17 A. I received a Bachelor of Arts degree in Economics and Managerial Studies from
18 Rice University in 1981, and an MBA from The University of Texas at Austin
19 in 1983. I began my employment with Gulf States Utilities Company in 1983.
20 Gulf States Utilities Company was acquired by Entergy in 1993. During the
21 past 17 years I have held positions of increasing responsibility in Corporate
22 Finance and Treasury. In my present position, I am responsible for financing

1 activity at the Operating Companies and several of the other subsidiaries of
2 Entergy. This activity includes the execution of financial strategies, the
3 arrangement of bank and capital market financings, as well as liability
4 management and bank relations.

5

6 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

7 A. The purpose of my testimony is to describe the business and financial structure
8 of the independent transmission company, or Transco, proposed by the
9 Operating Companies in this filing. In particular, I will address financial issues
10 related to the movement of transmission assets from the Operating Companies
11 to Transco. I will also address the effect of the movement of these transmission
12 assets on the overall capital structure and particularly the mortgage debt of the
13 Operating Companies. Finally, I will discuss the initial capital structure of
14 Transco. Company witness Nathan Langston will discuss in his Direct
15 Testimony the specific accounting details associated with the identification of
16 the transmission-related assets and liabilities of the Operating Companies and
17 their transfer or assignment to Transco.

18

19 Q. WHAT IS THE CURRENT CORPORATE STRUCTURE OF THE
20 ENTERGY OPERATING COMPANIES?

21 A. At the present time, all of the Operating Companies are vertically integrated
22 public utility companies providing bundled retail electric service in Arkansas,

1 Louisiana (including the City of New Orleans), Mississippi and Texas, as well
2 as buying and selling power in the wholesale electric market. Retail access
3 legislation has been passed in both Texas and Arkansas that requires EGSI and
4 EAI to unbundle utility operations in those states and to restructure or
5 reorganize operations for the purpose of providing unbundled electric service to
6 retail customers. Those unbundled services are generally in the form of
7 unregulated generation and retail services, and regulated distribution and
8 transmission services. Business separation plan (“BSP”) proposals have been
9 filed in Texas and Arkansas, including unbundled cost of service analyses, but
10 other than the Texas pilot program that becomes operational in June of 2001,
11 retail open access is not expected to occur in these jurisdictions until January 1,
12 2002 or later.

13 There are currently no legislative or regulatory mandates for retail open
14 access, unbundling or restructuring in Louisiana, the City of New Orleans or
15 Mississippi. Hence, at the present time, it is anticipated that the Operating
16 Companies serving those jurisdictions will retain their vertically integrated
17 business structures until the time of the formation of the independent
18 transmission company.

19

20 Q. HOW WILL THE OPERATING COMPANIES FORM THE INDEPENDENT
21 TRANSMISSION COMPANY?

1 A. The independent transmission company, Transco, will be formed as a Limited
2 Liability Company (“LLC”).¹ Exhibit FW-1 is a representative Transco
3 structure diagram which depicts in general terms the formation and structure of
4 Transco. Through a series of transactions, the Operating Companies will
5 transfer their transmission assets to Transco.² When the transmission assets are
6 contributed to Transco, the Operating Companies will receive an indirect
7 passive ownership interest in Transco in exchange for their transmission assets.

8 In addition, through a series of steps, Transco will repay the Operating
9 Company debt allocable to those transmission assets. In order to further ensure
10 the independence of Transco, the existing mortgage and other long-term debt of
11 the Operating Companies will not be assumed by Transco. Instead, there will
12 be interim internal debt assumption agreements between the Operating
13 Companies and an intermediate entity.³ The intermediate entity will obtain
14 independent financing, the proceeds of which will be used to pay the debt
15 assumed from the Operating Companies. The debt issued by the intermediate
16 entity will be assigned to Transco upon completion of the transfer of

¹ It is currently anticipated that the Transco will be formed no later than December 15, 2001.

² Transfer of transmission assets to Transco will include transfer of legal title and/or, on an interim basis, transfer of operating control of the transmission assets through operating or agency agreements. The timing of the ultimate transfer of legal title to the transmission assets to Transco will depend upon the receipt of state regulatory approvals and the resolution of other state and local issues.

³ The intermediate entity, which will be indirectly owned by Entergy and the Operating Companies, will aggregate the transmission assets of the Operating Companies prior to their transfer to Transco.

1 transmission assets to Transco. Ultimately, Entergy will receive the Operating
2 Companies' indirect passive ownership interests in Transco, and as a result,
3 Entergy will have an indirect passive ownership interest in Transco. Other non-
4 Entergy parties that elect to contribute their transmission assets to Transco also
5 will own passive interests in Transco. Transco will be governed by an
6 independent managing member and thus will not be controlled by Entergy or its
7 subsidiaries, either directly or indirectly. The managing member will be a
8 Delaware corporation governed by an independent board of directors.
9 Company witness Frank Gallaher will discuss the selection and structure of the
10 managing member's board of directors in his Direct Testimony.

11

12 Q. PLEASE DESCRIBE IN MORE DETAIL THE PROCESS FOR
13 RELEASING TRANSMISSION ASSETS FROM AN OPERATING
14 COMPANY MORTGAGE.

15 A. In order to transfer legal title to the transmission assets of the Operating
16 Companies to Transco, it will be necessary to release the transmission assets
17 from the lien of the Operating Company mortgages. While virtually all of the
18 property of each Operating Company is subject to the lien of that particular
19 Operating Company's mortgage, the Operating Company mortgages contain
20 provisions for the "release" of assets from the lien of the mortgage. One
21 method for releasing assets is to deposit cash with the mortgage trustee. Other

1 methods involve the release of assets by “funding” property additions that were
2 previously unfunded, or by reducing the balance of retired bond credits
3 available under the mortgage. Thus, property can be released on the basis of
4 unfunded property additions or retired bond credits without depositing cash
5 with the trustee and without retiring any bonds.

6 Each Operating Company currently has capacity under its mortgage to
7 release all of its transmission assets without depositing any cash with the
8 mortgage trustee. As mentioned above, once the transmission assets are
9 released from the mortgage, the Operating Company will contribute the assets
10 to Transco (through the intermediate entity described above) in exchange for a
11 passive ownership interest in Transco and repayment of a portion of the
12 Operating Company’s debt allocable to the transmission assets. Upon
13 completion of the transfer of transmission assets described above, Entergy and
14 the Operating Companies will no longer have any debt outstanding related to
15 the transmission assets nor have any operational control over those assets. At
16 that time, Transco will be operated as an independent transmission company
17 and will be governed by an independent managing member.

18

19 Q. HOW WILL THE INITIAL CAPITAL STRUCTURE OF TRANSCO BE
20 DETERMINED?

21 A. Initially, the proportion of Transco debt to equity will reflect a blend of the
22 actual capital structures (debt to equity) of the Operating Companies at the

1 time the transmission assets are transferred. For example, if an Operating
2 Company has a capital structure of 50% debt, 10% preferred and 40% common
3 equity, and contributes \$100 of assets to Transco, it will receive \$40 in Transco
4 equity and Transco (or an intermediate entity) will issue \$60 of debt to repay a
5 portion of the Operating Company's debt.⁴ These proportions will obviously be
6 different for each Operating Company. Exhibit FW-2 shows, for illustrative
7 purposes, a representative initial capital structure for Transco reflecting the
8 cumulative balances of debt and equity, based on the actual capital structure of
9 each Operating Company as of December 31, 1999, applied to each operating
10 company's capitalization applicable to Transco.

11

12 Q. HOW WILL THESE TRANSACTIONS IMPACT THE CAPITAL
13 STRUCTURES OF THE OPERATING COMPANIES?

14 A. As noted earlier, because the proceeds of the debt incurred by the intermediate
15 entity are used to pay a corresponding amount of Operating Company debt, the
16 Operating Companies' ratio of debt to total capital will initially decline. The
17 Operating Companies' capital ratios will return to approximately their original
18 levels when the Operating Companies dividend their ownership interests in

⁴ For capital structure discussion purposes, preferred stock is treated as debt in this example.

1 Transco to Entergy Corp.⁵ Exhibit FW-2 shows the actual capital structure of
2 each Operating Company as of December 31, 1999.

3

4 Q. WHAT IS THE ESTIMATED COST OF TRANSCO'S DEBT CAPITAL AT
5 THE TIME TRANSCO WILL BE FORMED?

6 A. Based on guidance we have received from Morgan Stanley Dean Witter
7 (Exhibit FW-3), the estimated cost at October 6, 2000 of the initial issuance of
8 debt capital by the intermediate entity would be in the range of 7.55% to
9 8.00%, based upon current market conditions, current knowledge about the
10 business prospects for an independent transmission company, an assumption of
11 fair ratemaking, estimated initial bond ratings in the range of A to BBB, and a
12 maturity of 10 years. The actual cost of Transco's initial debt issuance could be
13 higher or lower than these estimates based on changes in market conditions or
14 changes in the assumptions listed above before Transco is formed.

15

16 Q. DOES THE TRANSCO FORMATION PLAN CONTEMPLATE ANY NEW
17 CREDIT SUPPORT ARRANGEMENTS AMONG THE OPERATING
18 COMPANIES AND TRANSCO?

19 A. Because of the FERC's independence criteria for RTOs, no credit support may
20 be provided from the Operating Companies to Transco. In addition, because

⁵ While the capital ratios will eventually return to approximately their original levels, the total capitalization of each Operating Company will be reduced by approximately the net book

1 the existing mortgage and other long-term debt of the Operating Companies
2 will not be assumed by Transco in connection with the transfer of the
3 transmission assets, the intermediate entity will be required to raise debt capital
4 in order to repay a portion of the existing Operating Company debt upon the
5 transfer of the transmission assets to Transco.

6

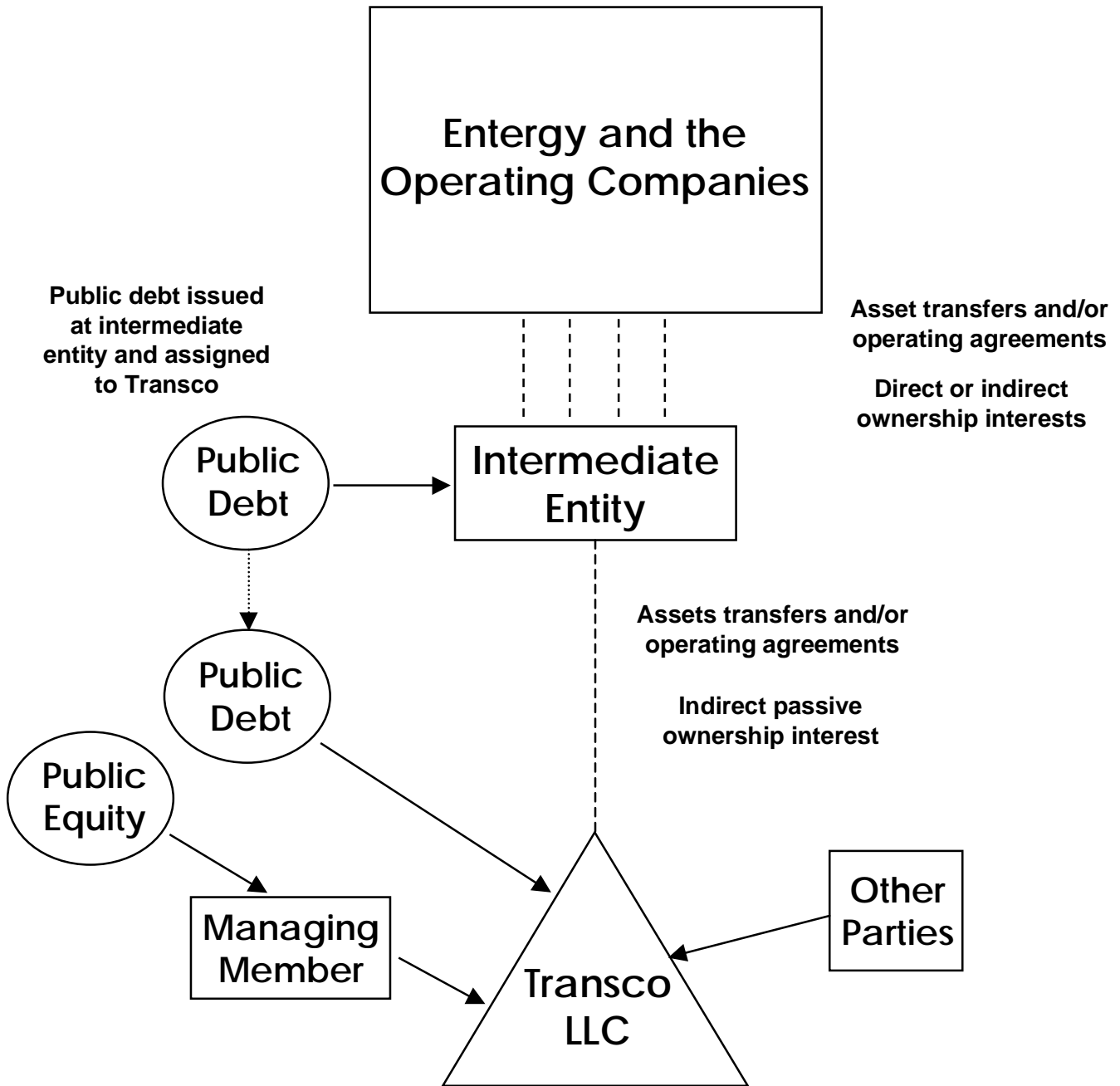
7 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

8 A. Yes, it does.

9

value, less associated liabilities, of transmission assets transferred to Transco.

Representative Independent Transmission Company Formation and Structure



**Operating Company Capitalization Ratios as of December 31, 1999
and Representative Initial Transco Capitalization**

Operating Company Capitalization Ratios as of December 31, 1999

| | EAI | EGSI | ELI | EMI | ENOI |
|----------------------|------------|-------------|------------|------------|-------------|
| Debt | 51.4% | 49.9% | 51.0% | 51.9% | 54.6% |
| Preferred | 7.0% | 9.0% | 7.4% | 5.1% | 6.1% |
| Equity | 41.6% | 41.1% | 41.6% | 43.0% | 39.3% |
| Total Capitalization | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |

Debt = Long Term Debt + Long Term Capital Leases + Current Capital Leases +
Current LongTerm Debt + Borrowings from Associated Companies + Notes Payable

Preferred = Preferred with Sinkers + Preferred without Sinkers + Preference Stock + QUIPS

Equity = Common Stock + Paid In Capital + Retained Earnings

Note: The above definition of debt includes certain liabilities not customarily included as debt for ratemaking purposes.

Representative Initial Transco Capitalization

| | EAI | EGSI | ELI | EMI | ENOI | Total Transco | |
|--|------------------|-------------|------------|------------|-------------|----------------------|--------|
| | (\$ in Millions) | | | | | | |
| Total Capitalization applicable to Transco (Exhibit NEL-2) | \$ 385 | \$ 445 | \$ 254 | \$ 270 | \$ 17 | \$ 1,371 | |
| Debt * | \$ 225 | \$ 262 | \$ 148 | \$ 154 | \$ 10 | \$ 799 | 58.3% |
| Equity | 160 | 183 | 106 | 116 | 7 | 572 | 41.7% |
| Total | \$ 385 | \$ 445 | \$ 254 | \$ 270 | \$ 17 | \$ 1,371 | 100.0% |

* Transco debt reflects Operating Company debt and preferred.

Transco Cost of Debt Analysis

October 6, 2000

| Credit Rating | Maturity | Benchmark | Spread (bps) | Yield (%) |
|---------------|----------|-----------|-----------------|--------------|
| A | 10 Year | 5.85 | +170 | 7.55 |
| A- | 10 Year | 5.85 | +190 | 7.75 |
| BBB+ | 10 Year | 5.85 | +205 | 7.90 |
| BBB | 10 Year | 5.85 | +215 | 8.00 |