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Entergy CEO pins service to rate raise

BY BILL W. HORNADAY
ARKANSAS DEMOCRAT-GAZETTE

Safe and reliable service will remain Entergy Arkansas Inc.'s top priority regardless of how its $106.5 million-a-year rate increase request turns out, its top officer said as public hearings on the case opened Wednesday.

But President and Chief Executive Officer Hugh McDonald warned state regulators that Entergy may be forced to reassess its business strategy — including storm-damage response — if Arkansas' largest electricity provider fails to get enough revenue to operate viably and reward its investors.

"Our company has a balance in the way it operates. And in terms of providing reliable electric service, we've made tremendous improvements since 1998," McDonald said. "But we also have an obligation to our shareholders, and if our operations become imbalanced ... you will probably see a difference over time in terms of reliability."

McDonald

As an example, McDonald noted that Entergy's storm-response strategy, which has won Edison Electric Institute awards for nine consecutive years, involves staging crews ahead of storms and boosting manpower by 10 percent to 15 percent in affected areas, often through contracts with other utilities.

If the Arkansas Public Service Commission denies a sizable portion of Entergy's request, McDonald said, it sends a signal "from a public policy standpoint" that what it spends on storm response and other programs may not be reasonable.

"Revenue ultimately dictates how a business operates, whether it's customer service or employee compensation," he said. "If revenue cannot supply enough capital to meet your needs, then something has to suffer."

If approved in full, Entergy's request — its first involving base rates in more than a decade — would increase residential rates by $4.26 a month to $90.21 for the

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first 1,000 kilowatt hours of electricity used.

Base rates pay for maintenance, operations and profits for the utility and its investors. Fuel-rate charges are passed through to customers.

Additional charges related to federally mandated "system agreement" payments would further raise bills by an estimated $12.62 per month to $102.83 — about 5 cents higher than rates in July 2006.

A 16 percent decrease in fuel rates in April lowered overall bills to $85.95 per 1,000 kilowatt hours used.

Entergy's latest rate request has drawn substantial criticism from the state attorney general's office for the amount of stock options and incentive pay that it seeks for top executives.

Nearly 30 percent of the entire request — about $30 million — is tagged for such rewards, mostly for out-of-state executives such as J. Wayne Leonard, president and CEO of New Orleans-based parent company Entergy Corp.

In addition, Entergy initially asked ratepayers to pay for hundreds of thousands of dollars worth of fringe benefits such as club dues, personal financial advice, corporate aircraft use and certain tax costs.

Other items ranged from $840,000 in dues for the Edison Electric Institute and Nuclear Energy Institute to $934 for a phone bill that ran six months overdue.

Additional costs included hotel rooms for Arkansas Razorbacks games, football and basketball tickets, golf and country club dues, more than $7,000 worth of Christmas cookies — even golf balls that carry Entergy's logo.

Entergy agrees that country club dues and charitable donations should be excluded, but maintains that chamber and civic club costs are proper because of Entergy's involvement in the communities it serves.

During opening statements, senior assistant Attorney General Shawn McMurray said the cost of stock options granted by Entergy in 2006 alone added up to about $23 for each of Entergy Arkansas' 680,000 customers.

"These bonuses are arrived at through little, if any, criteria and have little to do with providing energy service," he said.

Entergy Arkansas attorney Mac Norton said that since Entergy's last base rate case in 1996, an increased reliance on incentive compensation has reduced the company's overall payroll by $38 million.

"Incentive compensation works," said Norton, who was commission chairman from 1979-83. "And you shouldn't try to fix it."

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Norton added that efforts by the commission's advisory staff to change the utility's capital structure could have dire consequences.

The staff calls for a "hypothetical formula" in which debt carried by Entergy Arkansas outweighs equity by 52 percent to 48 percent — a move that it contends would lower consumer costs.

Entergy favors a formula in which equity exceeds debt by 56 percent to 44 percent — a level that would allow it to avoid a potential credit downgrade that could send it into "junk" status, or below investment grade.

If the staff's formula is adopted, Entergy Arkansas would have the lowest rate of return — less than 9 percent if applied to its real capital structure — of any electric utility of comparable size in the nation, Norton said.

"They say they want to alter it to make it more like other utilities," he said. "So how can our capital system be in the mainstream, yet our rate of return end up in the swamp?"

During time allotted for public comment, no mention of stock options or incentive pay was made.

Instead about a half-dozen speakers — each with ties to various economic development initiatives statewide — praised Entergy's role in that area and urged the commission not to let such resources be diminished.

"Their focus on community development and economic development has allowed us to begin to grow at a rate not seen in many, many years," said Jay Chesshir, president of the Little Rock Regional Chamber of Commerce.

"As you listen to the testimony both pro and con, we ask that you allow Entergy a fair and reasonable rate of return so they can continue to invest in our state."

Hearings resume today at 9:30 a.m. at the commission office at 1000 Center St. in Little Rock.