152 FERC ¶ 61,093
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Norman C. Bay, Chairman;
Philip D. Moeller, Cheryl A. LaFleur,
Tony Clark, and Colette D. Honorable.

Entergy Arkansas, Inc.	Docket Nos. ES15-22-000
Entergy Louisiana Power, LLC	ES15-23-000
Entergy Mississippi, Inc.	ES15-24-000
Entergy New Orleans, Inc.	ES15-25-000
Entergy Texas, Inc.	ES15-26-000
System Energy Resources, Inc.	ES15-27-000
Entergy Gulf States Louisiana, L.L.C.	ES15-28-000
Entergy Louisiana, LLC	ES15-29-000

ORDER DENYING REQUEST FOR AUTHORIZATIONS TO ISSUE SECURITIES

(Issued July 31, 2015)

1. On April 30, 2015, Entergy Services, Inc. (Entergy Services), on behalf of Entergy Arkansas, Inc. (Entergy Arkansas), Entergy Louisiana Power, LLC (Entergy Louisiana Power), Entergy Mississippi, Inc. (Entergy Mississippi), Entergy New Orleans, Inc. (Entergy New Orleans), Entergy Texas, Inc. (Entergy Texas), System Energy Resources, Inc. (System Energy Resources), Entergy Gulf States Louisiana, L.L.C. (Entergy Gulf States Louisiana), and Entergy Louisiana, LLC (Entergy Louisiana) (each an Applicant, and collectively, Applicants), filed an application pursuant to section 204 of the Federal Power Act (FPA)[1] (Application). In the Application, Applicants request Commission authorization to issue and sell securities and assume short-term and long-term obligations and liabilities during an authorization period commencing November 1, 2015 and expiring October 31, 2017 (Authorization Period). We will deny the requests for authorizations without prejudice because the Commission is unable to conclude, on the basis of the Application, that the proposed issuances and assumptions of liabilities and obligations will not impair the ability of each Applicant to perform public utility service, as discussed below.

[1] 16 U.S.C. § 824b (2012).

I. **Background**

2. Applicants state that each Applicant is, or in the case of Entergy Louisiana Power will be, a public utility and a direct or indirect wholly owned subsidiary of Entergy Corporation (Entergy).[2] According to Applicants, other than System Energy Resources, they provide retail and wholesale electric service to customers in portions of Arkansas, Louisiana, Mississippi, and Texas, and retail natural gas service to customers in portions of Louisiana. Applicants state that System Energy Resources owns and leases an aggregate 90 percent undivided interest in Unit No. 1 of the Grand Gulf Stream Electric generating station (Grand Gulf), and sells all of the capacity and energy associated with that interest to Entergy Arkansas, Entergy Louisiana, Entergy Mississippi, and Entergy New Orleans.

3. Applicants state that each of the Entergy Operating Companies[3] also owns and operates transmission facilities, and that each is a transmission-owning member of Midcontinent Independent System Operator, Inc. (MISO). Applicants state that MISO operates, or in the case of Entergy Louisiana Power will operate, the Entergy Operating Companies' transmission facilities and that open access transmission service over their facilities is provided pursuant to MISO's Open Access Transmission, Energy and Operating Reserve Markets Tariff.

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[2] Applicants state that Entergy Louisiana Power is an entity that is expected to become a public utility upon completion of a transaction in which Entergy Gulf States Louisiana and Entergy Louisiana, each of which is a public utility, will combine substantially all of their respective assets and liabilities into a single successor public utility operating company, Entergy Louisiana Power. Applicants expect the transaction, which has been authorized under FPA section 203, 16 U.S.C. § 824b (2012), to close by October 1, 2015. Application at 2. *See also Entergy Gulf States Louisiana, L.L.C.*, 151 FERC ¶ 62,018 (2015). The Commission has authorized Entergy Louisiana Power to issue securities and to assume short-term and long-term obligations and liabilities from the date it becomes a public utility until October 31, 2015. *Entergy Services, Inc.*, 151 FERC ¶ 61,204 (2015).

[3] The Entergy Operating Companies are Entergy Arkansas, Entergy Gulf States Louisiana, Entergy Louisiana, Entergy Louisiana Power, Entergy Mississippi, Entergy New Orleans, and Entergy Texas. System Energy Resources does not serve retail customers or own transmission facilities and is, therefore, not characterized as one of the Entergy Operating Companies. Application at n.1.

4. Applicants note that under their existing authorizations under FPA section 204, they are authorized to issue and sell securities and assume short-term and long-term obligations and liabilities through October 31, 2015.[4]

II. Applicants' Request

5. Applicants request authorization to issue and sell Preferred Securities; to assume Long-Term Debt; to issue notes and other securities, including common membership interests, in connection with capital contributions and non-interest bearing open account advances; to issue Short-Term Debt; to provide MISO Letters of Credit; and to consent to borrowings by special purpose entities in connection with nuclear fuel leases. Applicants request authorizations for the Authorization Period in the following amounts:

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[4] *See Entergy Arkansas, Inc.* 145 FERC ¶ 61,093 (2013) (Entergy Authorization Order). In the Entergy Authorization Order, the Commission granted FPA section 204 authorization to Entergy Arkansas, Entergy Gulf States Louisiana, Entergy Louisiana, Entergy Mississippi, Entergy New Orleans, Entergy Texas, and System Energy Resources. Specifically, each company was authorized: to issue and sell preferred membership interests (Preferred Securities); to assume long-term obligations and liabilities (Long-Term Debt); to issue notes and other securities, including common membership interests, in connection with capital contributions and non-interest bearing open account advances; to issue short-term debt securities having a maturity of not more than one year in the form of promissory notes, commercial paper, or other forms of short-term debt securities (Short-Term Debt); to provide letters of credit as collateral security in connection with their membership in MISO (MISO Letters of Credit); and to consent to borrowings by special purpose entities in connection with nuclear fuel leases. In November 2014, the Long-Term Debt authorization for Entergy Louisiana was increased. *See Entergy Services, Inc.*, 149 FERC ¶ 62,104 (2014). In March 2015, the Long-Term Debt authorization for Entergy Texas was increased. *See Entergy Texas, Inc.*, 150 FERC ¶ 61,219 (2015). As noted above, the Commission has authorized Entergy Louisiana Power to issue and sell Preferred Securities; to assume Long-Term Debt; to issue notes and other securities, including common membership interests, in connection with capital contributions and non-interest bearing open account advances; to issue Short-Term Debt; to provide MISO Letters of Credit; and to consent to borrowings by special purpose entities in connection with nuclear fuel leases from the date it becomes a public utility until October 31, 2015. *See supra* note 2.

	Preferred Securities	Long-Term Debt	Short-Term Debt	MISO Letters of Credit	Consents to Borrowings
Entergy Arkansas	N/A	N/A	$ 250 million	$ 65 million	$ 375 million
Entergy Louisiana Power	$ 200 million	$ 7.0 billion	$ 450 million	$ 170 million	$ 350 million $ 250 million
Entergy Mississippi	$ 70 million	$ 1.90 billion	$ 175 million	$ 65 million	N/A
Entergy New Orleans	N/A	N/A	$ 100 million	$ 25 million	N/A
Entergy Texas	$ 100 million	$ 1.90 billion	$ 200 million	$ 80 million	N/A
System Energy Resources	N/A	$ 1.10 billion	$ 200 million	N/A	$ 350 million
Entergy Gulf States Louisiana	$ 100 million	$ 2.8 billion	$ 200 million	$ 80 million	$ 350 million
Entergy Louisiana	$ 100 million	$ 4.20 billion	$ 250 million	$ 90 million	$ 250 million

A. <u>Preferred Securities</u>

6. Entergy Gulf States Louisiana, Entergy Louisiana, Entergy Louisiana Power, Entergy Mississippi, and Entergy Texas each request authorization to issue Preferred Securities in the form of shares of preferred stock, preference stock, units of preferred membership interests, or units of preference membership interests as appropriate to the organizational structure of the respective Applicant, during the Authorization Period.[5] Applicants state that the Preferred Securities to be issued and sold by them will be issued from time to time during the Authorization Period in one or more series, and that the interest or distribution rate or rates of the Preferred Securities to be issued and sold by

[5] Entergy Louisiana Power anticipates that it will not issue Preferred Securities during the Authorization Period but requests authority to do so in the event it is necessary or prudent to undertake such issuances. Application at n.12. Additionally, Applicants note that Entergy Arkansas, Entergy New Orleans, and System Energy Resources do not request authorization to issue preferred securities in the Application. *Id.* at 9.

Entergy Louisiana Power, Entergy Gulf States Louisiana, Entergy Louisiana, Entergy Mississippi, and Entergy Texas or on their behalf may be fixed or floating.[6]

7. Entergy Louisiana Power, Entergy Gulf States Louisiana, Entergy Louisiana, Entergy Mississippi, and Entergy Texas propose that Preferred Securities issued by them will have distribution rates as follows: (i) for Preferred Securities entitled to distributions at a fixed rate, at a rate not to exceed 10 percent per annum; and (ii) for Preferred Securities entitled to distributions at a variable rate, at a rate not to exceed 400 basis points above any of the following rates for loans, (x) the 1-month, 2-month, 3-month, 6-month, or 12-month London Interbank Offering Rate (LIBOR), or (y) the prime rate or the Federal Funds Rate, as identified in The Wall Street Journal, provided that if such Preferred Securities of an Applicant are entitled to distributions derived from a prime rate or Federal Funds Rate other than the average prime rate or Federal Funds Rate identified in The Wall Street Journal, such Applicant will make available upon request to its treasurer a copy of the note or instrument that identifies such distribution rate.[7]

B. <u>Long-Term Debt</u>

8. Entergy Gulf States Louisiana, Entergy Louisiana, Entergy Louisiana Power, Entergy Mississippi, Entergy Texas, and System Energy Resources each request authorization to issue Long-Term Debt that may take the form of one or more series of mortgage bonds, notes, debentures, intercompany credit agreements, arrangements to make payments sufficient to pay governmental bonds issued on behalf of the Applicant, and other forms of long-term debt instruments.[8] Applicants state that they propose to issue debt that may be either secured or unsecured, may have maturities in excess of one year but no more than sixty years from the time of issuance, and may be issued in public or privately negotiated transactions.[9] Applicants state that any Long-Term Debt issued pursuant to the authorizations requested in the Application will be subject to the four restrictions on such securities specified in *Westar Energy, Inc.* (*Westar*).[10]

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[6] *Id.* at 19.

[7] *Id.*

[8] *Id.* at 9. Applicants note that Entergy Arkansas and Entergy New Orleans do not request authorization to issue Long-Term Debt in this Application. *Id.* at 11.

[9] *Id.* at 9.

[10] 102 FERC ¶ 61,186, *order on reh'g*, 104 FERC ¶ 61,018 (2003).

9. Applicants explain that revolving credit arrangements with terms in excess of one year are included within the definition of Long-Term Debt for purposes of the Application. Applicants state that, even though amounts may be borrowed and repaid throughout the term of the arrangement, the borrowings are treated as Long-Term Debt since each borrowing does not mature to become due and payable until the expiration of the term of the arrangement, which is typically three to five years from the date from which the arrangement was entered into. Applicants propose to treat the full amount of the debt that may be borrowed under such an arrangement as having been issued when such an arrangement is entered into. Applicants therefore request that the Commission authorize treating the full amount of the debt that is borrowed under such an arrangement as having been issued when such arrangement is entered into, and to incur such borrowings under such revolving credit arrangements after the end of the Authorization Period so long as the Applicant would have been authorized to borrow the full amount of such debt when the arrangement was entered into.[11]

10. Applicants state that the interest or distribution rate or rates of the Long-Term Debt to be issued and sold by Entergy Gulf States Louisiana, Entergy Louisiana, Entergy Louisiana Power, Entergy Mississippi, Entergy Texas, and System Energy Resources, or on their behalf, may be fixed or floating. Applicants propose that Long-Term Debt issued by them will bear interest as follows: (i) for Long-Term Debt that bears interest at a fixed rate, at a rate not to exceed 7 percent per annum; and (ii) for Long-Term Debt that bears interest at a variable rate, at a rate not to exceed 400 basis points above any of the following rates for loans (x) the 1-month, 2-month, 3-month, 6-month or 12-month LIBOR or commercial paper rate, or (y) the prime rate or the Federal Funds Rate as identified in The Wall Street Journal, provided that, if a lender arranges such Long-Term Debt financing for an Applicant at a prime rate or Federal Funds Rate other than the average prime rate or Federal Funds Rate identified in the Wall Street Journal, such Applicant will make available, upon request to its treasurer, a copy of the note or instrument that identifies such rate.[12]

C. <u>Capital Contributions and Non-Interest Bearing Open Account Advances</u>

11. Each Applicant requests authorization to issue notes or other securities, including units of common stock or common membership interests, as appropriate to the organizational structure of the respective Applicant, in connection with capital contributions and non-interest bearing open account advances received from parents that

[11] Application at 10.

[12] *Id.* at 19.

directly or indirectly own Applicants or other affiliates, without limitation.[13] Applicants explain that this request for authority to issue notes or other securities in connection with capital contributions and non-interest bearing open account advances does not constitute a request for authority to participate in a money pool or cash management arrangement.[14]

D. Short-Term Debt

12. Applicants each request authorization to issue Short-Term Debt that may consist of any type of debt securities having maturities of not more than one year. Applicants state that they expect the Short-Term Debt will primarily be in the form of the following:

1. Money Pool Borrowings

13. Applicants state that Entergy Services and its affiliates maintain a cash management arrangement (Money Pool) as the primary mechanism for funding Applicant's working capital needs and certain non-utility affiliates of Applicants (Money Pool Participants). Applicants state that each Applicant may make unsecured short-term borrowings from other Money Pool Participants pursuant to a money pool agreement.[15]

2. External Borrowings

14. Each Applicant may establish secured or unsecured lines of credit with various commercial banks either individually or on a consolidated basis with one or more of the other Applicants. Applicants may also issue, reissue, and sell commercial paper. Applicants state that, for purposes of the Application, revolving credit arrangements with terms of less than one year are included within the definition of Short-Term Debt.[16]

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[13] *Id.* at 11 (citing *National Grid USA*, 115 FERC ¶ 61,241 (2006)).

[14] *Id.*

[15] FERC-regulated entities are required to file their cash management agreements with the Commission. *See* 18 C.F.R. § 141.500 (2014). The information provided is used to aid the Commission in monitoring cash management programs. The rule is not in the nature of a regulation governing participation in cash management programs. Therefore, this order does not address any request for authorization to participate in a cash management program. *See Regulation of Cash Management Practices*, Order No. 634-A, FERC Stats. & Regs. ¶ 31,152 (2003) (cross-referenced at 105 FERC ¶ 61,098 (2003)).

[16] Application at 12.

3. Other Intrasystem Short-term Borrowing Arrangements

15. Applicants may enter into direct unilateral short-term borrowing arrangements, whereby an Applicant borrows from its direct or indirect parent on a secured or unsecured basis.

16. Applicants state that any Short-Term Debt issued pursuant to the authorizations requested in the Application will be subject to the four restrictions on such securities specified in *Westar*.

17. Applicants state that Short-Term Debt will bear interest at rates as follows: (i) for Short-Term Debt that bears interest at a fixed rate, at a rate not to exceed 6 percent per annum; and (ii) for Short-Term Debt that bears interest at a variable rate, at a rate not to exceed 400 basis points above any of the following rates for loans (x) the 1-month, 2-month, 3-month, 6-month or 12-month LIBOR or (y) the prime rate of Federal Funds Rate as identified in The Wall Street Journal, provided that, if a lender arranges such Short-Term Debt financing for an Applicant at a prime rate or Federal Funds Rate other than the average prime rate or Federal Funds Rate identified in The Wall Street Journal, such Applicant will make available, upon request to its treasurer, a copy of the note or instrument that identifies such interest rate.[17]

E. MISO Letters of Credit

18. Applicants explain that, pursuant to MISO's credit rules, entities that participate in MISO's markets and settlement processes (MISO Market Participants) are obligated to post collateral security to secure their payment obligations to MISO through the MISO settlement process for market transactions. All Applicants except System Energy Resources will be MISO Market Participants and will be obligated to post collateral to secure their obligations to MISO.[18]

19. Applicants that provide Letters of Credit to MISO will arrange for the Letters of Credit through banks and other lenders and will pay fees to those providers. Applicants state that they will pay their obligations to MISO on a timely basis, but that if MISO has a need to draw on the Letters of Credit to pay an amount owed by an Applicant, the Applicant will be obligated to reimburse the issuer of the Letters of Credit for the amount

[17] *Id.* at 20.

[18] Applicants state that System Energy Resources is not registered as a MISO Participant. System Energy Resources sells the capacity and energy output of Grand Gulf directly to Entergy Arkansas, Entergy Louisiana, Entergy Mississippi, and Entergy New Orleans, and does not participate in the MISO markets. *Id.* n.21.

of the drawing and interest, if applicable. In such event, Applicants state that they will each be able to recover such amount from their respective customers through their retail rates on a pass-through basis because any such amount will represent payment for services that Applicants will procure from MISO to serve those customers. Applicants state that they will also be able to recover through rates the fees they will each pay their Letters of Credit providers.[19]

F. Consent to Borrowings by Nuclear Fuel Special Purpose Entities

20. Entergy Arkansas, Entergy Gulf States Louisiana, Entergy Louisiana, Entergy Louisiana Power, and System Energy Resources each request authorization to consent to borrowings by their respective affiliated nuclear fuel special purpose entity that was organized for the purpose of acquiring nuclear fuel and leasing such nuclear fuel to the Applicant for use in the Applicant's nuclear power plants (Nuclear Fuel Special Purpose Entity).[20]

21. Entergy Arkansas, Entergy Gulf States Louisiana, Entergy Louisiana, Entergy Louisiana Power, and System Energy Resources state that each nuclear fuel lease under which an Applicant leases nuclear fuel from its associated Nuclear Fuel Special Purpose Entity unconditionally obligates the Applicant to make rental payments in amounts sufficient to cover the Nuclear Fuel Special Purpose Entity's debt service, fees, and other amounts required to reimburse the Nuclear Fuel Special Purpose Entity for its obligations, costs, or expenses incurred in connection with the lease.

22. Entergy Arkansas, Entergy Gulf States Louisiana, Entergy Louisiana, Entergy Louisiana Power, and System Energy Resources propose that the debt issued by the Nuclear Fuel Special Purpose Entities will bear interest at rates as follows: (i) for borrowings that bear interest at a fixed rate, at a rate not to exceed 8 percent per annum; and (ii) for borrowings that bear interest at a variable rate, at a rate not to exceed 400 basis points above any of the following rates for loans: (x) the 1-month, 2-month, 3-month, 6-month or 12-month LIBOR, or (y) the prime rate or the Federal Funds Rate, as identified in The Wall Street Journal, provided that, if a lender arranges such borrowings for an Applicant at a prime rate or Federal Funds Rate other than the average

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[19] Applicants propose to charge Account 557, Other Expenses, for LOC fees. *Id.* n.22.

[20] *Id.* at 14. Applicants state that, while they do not formally guarantee borrowings by their special purpose leasing entities, Applicants' obligations under the fuel leases "may be considered to be in the nature of a guarantee." *Id.* at 15. Accordingly, out of an abundance of caution, Applicants are requesting approval under FPA section 204(a) of such obligations. *Id.*

prime rate or Federal Funds Rate identified in The Wall Street Journal, such Applicant will make available, upon request to its treasurer, a copy of the note or instrument that identifies such interest rate.[21]

III. Notice of Filing, Interventions, and Protests

23. Notice of the Application was published in the *Federal Register*, 80 Fed. Reg. 26,243 (2015), with interventions and protests due on or before May 21, 2015. None was filed.

IV. Analysis Under FPA Section 204

24. FPA section 204(a) provides that requests for authorization to issue securities or to assume any obligation or liability as guarantor, indorser, surety, or otherwise in respect of any security of another person shall be granted if the Commission finds that the issuance or assumption: (1) is for some lawful object, within the corporate purposes of the applicant and compatible with the public interest, which is necessary or appropriate for or consistent with the proper performance by the applicant of service as a public utility and which will not impair its ability to perform that service; and (2) is reasonably necessary or appropriate for such purposes.[22]

25. In reviewing an application under FPA section 204, the Commission utilizes an interest coverage ratio calculation to determine whether the issuances for which authorization are sought "will not impair [a public utility's] ability to perform" service as a public utility.[23] The Commission typically bases its finding that proposed issuances of securities will not impair an applicant's ability to perform service as a public utility in part upon the applicant's demonstration that it will have an interest coverage ratio that is 2.0 or higher.[24] In making this finding, the Commission reviews the financial statements submitted with an application filed under FPA section 204 and applicant's calculation of the interest coverage ratio, which is the sum of income before interest and income taxes

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[21] *Id.* at 20-21.

[22] 16 U.S.C. § 824(c)(a) (2012).

[23] *See, e.g.*, *Old Dominion Electric Cooperative*, 145 FERC ¶ 61,132, at P 12 (2013); *Startrans IO, LLC*, 122 FERC ¶ 61,253, at P 18 (2008) (*Startrans*).

[24] *Startrans*, 122 FERC ¶ 61,253 at P 18 (stating that "this screen is a mid-way number in a range that has been used by lenders and borrowers and provides a buffer against unforeseen, adverse financial events that might impair Startrans IO's ability to perform as a public utility").

divided by total interest expense.[25] The interest coverage ratio is a screen test used primarily to provide the Commission with comfort that the financing authorized will not impair an applicant's ability to perform public utility service.[26] The Commission has stated, however, that whether or not an applicant meets the 2.0 interest coverage ratio screen does not by itself determine whether the Commission will authorize or deny the application.[27] The Commission has approved FPA section 204 applications that have not met the 2.0 interest coverage ratio threshold.[28]

26. Entergy Services has filed, as Exhibits C, D, and E, actual and *pro forma* financial statements for each of the Entergy Operating Companies[29] and System Energy Resources as of December 31, 2014. According to Applicants, Entergy Arkansas has a *pro forma* interest coverage ratio of 2.1, Entergy Gulf States Louisiana has a *pro forma* interest coverage ratio of 1.8, Entergy Louisiana has a *pro forma* interest coverage ratio of 2.3, Entergy Louisiana Power has a *pro forma* interest coverage ratio of 2.5, Entergy Mississippi has a *pro forma* interest coverage ratio of 1.5, Entergy New Orleans has a *pro forma* interest coverage ratio of 2.1, Entergy Texas has a *pro forma* interest coverage ratio of 1.3, and System Energy Resources has a *pro forma* interest coverage ratio of 2.1.[30]

27. As noted above, the Commission relies on an applicant's interest coverage ratio in evaluating whether an applicant's proposed issuances will impair its ability to perform its public utility service. As explained in further detail below, however, the Commission is unable to rely on the interest coverage ratios provided here because the financial

[25] *Westar*, 102 FERC ¶ 61,186 at P 15, n.15.

[26] *Montana Alberta Tie Ltd.*, 128 FERC ¶ 61,217, at P 16 (2009) (citing *Startrans*, 122 FERC ¶ 61,253, at P 18). The Commission has also described the interest coverage ratio as a measure of a utility's ability to meet future debt and interest payments. *Westar*, 102 FERC ¶ 61,186 at P 15.

[27] *See, e.g.*, *Startrans*, 122 FERC ¶ 61,253 at n.7.

[28] *See, e.g.*, *NorthWestern Corp.*, 151 FERC ¶ 61,120 (2015); *ITC Great Plains, LLC*, 147 FERC ¶ 61,005 (2014); *Mississippi Power Co.*, 145 FERC ¶ 61,218 (2013); *Westar*, 102 FERC ¶ 61,186.

[29] Entergy Services filed actual and *pro forma* financial statements for Entergy Louisiana Power based on the combined financial statements of Entergy Gulf States Louisiana and Entergy Louisiana.

[30] Application at 44.

statements provided by Applicants in support of the Application include inappropriate adjustments that undermine the interest coverage ratio screen and also contain inconsistencies and errors.[31] As a result, the Commission cannot evaluate whether the proposed issuances for which Applicants seek authorization would impair each company's ability to perform public utility service. Although the Commission is rejecting the Application, it is doing so without prejudice to Applicants submitting a new application with financial statements that are consistent with the discussion below.[32]

28. The Commission notes that although the Commission's regulations allow for clearly identified adjustments to Exhibits C and D[33] of applications under FPA section 204, those adjustments must be appropriate.[34] Applicants have included adjustments in their *pro forma* financial statements, however, that nullify the effect of the increased financial burden of the proposed securities issuances and assumptions of liabilities that is reflected in the interest coverage ratio calculation, leaving it ineffective as a screen for evaluating whether a proposed issuance or assumption will impair Applicants' ability to

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[31] As discussed below and noted in further detail in the Appendix to this order, the financial statements for Entergy Arkansas and Entergy New Orleans include inappropriate adjustments. The financial statements for all Applicants contain inconsistencies and errors.

[32] We remind Applicants that, in any application they submit, they are required, under the Commission's regulations, to provide published financial statements for a 12-month period ending no more than four months prior to the date of the filing of the FPA section 204 application. *See* 18 C.F.R. § 34.4(c)-(e) (2014).

Also, we remind Applicants that, if any of the Entergy Operating Companies or System Energy Resources do not pass the interest coverage ratio screen, Applicants must provide a detailed narrative, and any relevant supporting documentation, that would provide the necessary support for the Commission to alternatively conclude that, notwithstanding the failure to pass the interest coverage ratio screen, the proposed issuances of securities will not impair that company's ability to continue to provide service as a public utility.

[33] 18 C.F.R. § 34.4(c)-(d) (2014).

[34] *See Commonwealth Edison Co.*, 145 FERC ¶ 61,214, at P 16 (2013) ("[The Commission does] not consider it appropriate to selectively exclude certain expense items from the interest coverage calculation. To allow applicants to make selective adjustments to their published financial statements in order to meet the 2.0 times interest coverage test calls into question whether the applicant has, in fact, made appropriate adjustments.").

perform public utility service. For example, in Exhibit C, Entergy Arkansas imputes $82.5 million of assumed interest income on approximately $1.5 billion of proceeds from the various issuances of securities.[35] This adjustment directly offsets the additional interest expense incurred from the borrowing for which Entergy Arkansas seeks authorization. By offsetting the interest expense that Entergy Arkansas will incur when it engages in the borrowing for which it seeks authorization under FPA section 204, Entergy Arkansas nullifies the effect of the additional financial burden of the borrowing that the interest coverage screen would otherwise capture. Allowing Applicants to make this adjustment results in a calculation that no longer provides a meaningful snapshot of a company's financial health and no longer measures an applicant's buffer against unforeseen, adverse financial events.[36] Therefore, we consider this adjustment to be inappropriate.

29. Applicants include other similarly inappropriate adjustments that increase operating revenues to offset interest expenses. First, Entergy Arkansas indicates that the $63.0 million reflected in that entry includes a "corresponding increase in operating revenues to recover the additional interest expense."[37] Second, Entergy New Orleans records $12.2 million in interest expense along with a corresponding increase in operating revenues of $12.2 million.[38] As above, these adjustments offset interest expense nullifying the effect of the additional financial burden of borrowing that the interest coverage screen would otherwise capture. Therefore, we also consider both of these adjustments to be inappropriate.

30. Furthermore, Entergy Arkansas asserts that $0.9 million of interest expense on $54.7 million of bonds maturing on October 1, 2017 should be excluded from the *pro forma* interest coverage ratio calculation in order to remove the "potential retirement"

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[35] Application, Entergy Arkansas, Inc., Exhibit C: Pro Forma Accounting Entries to Reflect the Proposed Transactions as of December 31, 2014, Journal Entry (J).

For a list of similar adjustments to the financial statements included with the Application identified by the Commission see the attached Appendix. We note that the Appendix is included for illustrative purposes and is not intended to be an exhaustive list.

[36] *See Startrans*, 122 FERC ¶ 61,253 at P 18.

[37] Application, Entergy Arkansas, Inc., Exhibit C: Pro Forma Accounting Entries to Reflect the Proposed Transactions as of December 31, 2014, Journal Entry (G).

[38] Application, Entergy New Orleans, Inc., Exhibit C: Pro Forma Accounting Entries to Reflect the Proposed Transactions as of December 31, 2014, Journal Entry (D).

of the bonds.[39] In order, however, to make a *pro forma* adjustment excluding interest expense when redeeming or retiring debt, applicants must commit to use the necessary amount of the proceeds to redeem such outstanding debt. This type of adjustment is appropriate because it eliminates the interest expense on the redeemed debt and thereby avoids double counting of interest expense in the interest coverage ratio. Here, however, Applicants identify the adjustment as a "potential retirement" and provide no such commitment. Accordingly, this adjustment is also not appropriate.

31. Notwithstanding our findings regarding Entergy Arkansas' and Entergy New Orleans' adjustments, we note that, generally speaking, not all adjustments to *pro forma* financial statements are inappropriate. For example, applicants must provide *pro forma* adjustments showing the effect that previously authorized but unissued debt has on the interest coverage test. This type of adjustment is appropriate because it shows the effect on the interest coverage ratio if the company exercises the approval granted to issue the debt.

32. In addition to the inappropriate adjustments in Applicants' financial statements, Applicants' *pro forma* financial statements also contain inconsistencies and other errors.[40] As with the adjustments discussed above, the inconsistencies and errors undermine the Commission's ability to rely on the interest coverage ratios calculated for each of the Applicants. For example, the Application proposes that Short-Term Debt bear interest at a fixed rate not to exceed 6 percent, but the *pro forma* financial statements use a short-term interest rate of 5.5 percent.[41] The use of a lower interest rate has the effect of inflating Applicants' interest coverage ratios. Due to the inconsistencies and errors contained in Applicants' financial statements, the Commission cannot rely on Applicants' representations and so cannot conclude that the requested authorizations will not impair each Applicants' individual ability to perform as public utilities.

33. For the reasons above, we are unable to find that each Applicants' ability to perform public utility service will not be impaired by the proposed issuances and undertakings. Applicants have not demonstrated that the requested authorizations: (1) will continue to be for lawful objects within the corporate purposes of the Applicants

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[39] Application, Entergy Arkansas, Inc., Exhibit C: Pro Forma Accounting Entries to Reflect the Proposed Transactions as of December 31, 2014, Journal Entry (F).

[40] A non-exhaustive list of the inconsistencies and errors identified by the Commission in the financial statements is included in the attached Appendix.

[41] For example, compare Application at 20, with Entergy Arkansas, Inc., Exhibit C: Pro Forma Accounting Entries to Reflect the Proposed Transactions as of December 31, 2014, Journal Entry (c).

and compatible with the public interest, necessary or appropriate for or consistent with the proper performance by the Applicants of service as a public utility and will not impair their ability to perform that service; and (2) remain reasonably necessary or appropriate for such purposes. Accordingly, we will deny the Application. Our determination is without prejudice to Applicants filing an application, or applications, for authorization under FPA section 204 that does not, among other things, contain inappropriate adjustments to the *pro forma* financial statements, or inconsistencies and errors of the type detailed in the Appendix to this order.[42]

The Commission orders:

The Application is hereby denied, as discussed in the body of this order.

By the Commission.

(S E A L)

Kimberly D. Bose,
Secretary.

[42] The Commission notes that its findings in this order address the financial statements submitted in Exhibits C, D, and E to the Application, not the alternative versions of the financial statements submitted in Exhibit I to the Application.

Appendix

List of inappropriate adjustments to Applicants' *pro forma* financial statements and inconsistencies contained therein:

Entergy Arkansas, Inc., Docket No. ES15-22-000

Inappropriate Adjustments:

1. Journal Entry (J) in Exhibit C: Pro Forma Accounting Entries to Reflect the Proposed Transactions for Entergy Arkansas imputes $82.5 million of assumed interest income on approximately $1.5 billion of proceeds from the various proposed issuances of securities. Journal Entry (J) states that the entry records "interest income on the investment of the net proceeds of the proposed transaction at Entergy Arkansas' historic 5-year return on invested capital of 5.5 percent."[43]

2. Journal Entry (F) in Exhibit C: Pro Forma Accounting Entries to Reflect the Proposed Transactions for Entergy Arkansas indicates that $0.9 million of interest expense on $54.7 million of bonds maturing on October 1, 2017 should be excluded from the *pro forma* interest coverage ratio calculation.

3. Journal Entry (G) in Exhibit C: Pro Forma Accounting Entries to Reflect the Proposed Transactions for Entergy Arkansas indicates that the $63.0 million reflected in that entry includes a "corresponding increase in operating revenues to recover the additional interest expense."[44]

Inconsistencies and Errors:

4. On page 20 of the Application, Applicants propose that Short-Term Debt issued by them that bears interest at a fixed rate bear interest at a rate not to exceed 6 percent. However, Journal Entry (c) in Exhibit C: Pro Forma Accounting Entries to Reflect the Proposed Transaction for Entergy Arkansas uses a short-term interest rate of 5.5 percent.

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[43] Application, Entergy Arkansas, Inc., Exhibit C: Pro Forma Accounting Entries to Reflect the Proposed Transactions as of December 31, 2014, Journal Entry (J).

[44] Application, Entergy Arkansas, Inc., Exhibit C: Pro Forma Accounting Entries to Reflect the Proposed Transactions as of December 31, 2014, Journal Entry (G).

Entergy Louisiana Power, LLC, Docket No. ES15-23-000

Inconsistencies and Errors:

5. On page 20 of the Application, Applicants propose that the Short-Term Debt issued by them that bears interest at a fixed rate bear interest at a rate not to exceed 6 percent. However, Journal Entry (A) in Exhibit C: Pro Forma Accounting Entries to Reflect the Proposed Transactions for Entergy Louisiana Power uses a short-term interest rate of 5.5 percent.

6. On page 20 of the Application, Applicants state that, for purposes of preparing the *pro forma* financial statements, they assumed an interest rate of 4.5 percent for Entergy Louisiana Power's long-term credit facility. However, Journal Entry (F) in Exhibit C: Pro Forma Accounting Entries to Reflect the Proposed Transactions for Entergy Louisiana Power uses an interest rate of 6 percent.

7. Journal Entry (AA) in Exhibit C: Pro Forma Accounting Entries to Reflect the Proposed Transactions for Entergy Louisiana Power shows a credit of $236.3 million to operating expenses. Exhibit D: Pro Forma Consolidated Statements of Income for Entergy Louisiana Power, however, shows $225.8 million in operating expenses being removed.

8. Journal Entry (BB) in Exhibit C: Pro Forma Accounting Entries to Reflect the Proposed Transactions for Entergy Louisiana Power identifies $2.0 million in net income (Equity) related to the Algiers Assets. Exhibit D: Pro Forma Consolidated Statements of Income for Entergy Louisiana Power, however, ultimately removes $12.5 million in net income related to the Algiers Assets.

9. Exhibit D: Pro Forma Consolidated Statements of Income for Entergy Louisiana Power includes references to historical accounting entries for Entergy Gulf States Louisiana. Among these entries is a $0.4 million debit recorded in Account 411.5 for Entergy Gulf States Louisiana as of December 31, 2014. Exhibit D for Entergy Gulf States Louisiana, however, shows a zero value in Account 411.5 for the same time period.

10. Exhibit E: Pro Forma Consolidated Statements of Income and Computation of Interest Coverage for Entergy Louisiana Power includes references to historical entries for Entergy Gulf States Louisiana. Among these entries is an entry for "Income Taxes" of $83.3 million for Entergy Gulf States Louisiana. Exhibit E for Entergy Gulf States Louisiana, however, includes an entry for "Income Taxes" of $87.6 million.

Entergy Mississippi, Inc., Docket No. ES15-24-000

Inconsistencies and Errors:

11. On page 20 of the Application, Applicants propose that the Short-Term Debt issued by them that bears interest at a fixed rate bear interest at a rate not to exceed 6 percent. However, Journal Entry (A) in Exhibit C: Pro Forma Accounting Entries to Reflect the Proposed Transactions for Entergy Mississippi uses a short-term interest rate of 5.5 percent.

Entergy New Orleans, Inc., Docket No. ES15-25-000

Inappropriate Adjustments:

12. Journal Entry (D) in Exhibit C: Pro Forma Accounting Entries to Reflect the Proposed Transactions for Entergy New Orleans records $12.2 million in interest expense along with a corresponding increase in operating revenues of $12.2 million.

Inconsistencies and Errors:

13. On page 20 of the Application, Applicants propose that the Short-Term Debt issued by them that bears interest at a fixed rate bear interest at a rate not to exceed 6 percent. However, Journal Entry (b) shown in Exhibit C: Pro Forma Accounting Entries to Reflect the Proposed Transactions for Entergy New Orleans uses a short-term interest rate of 5.5 percent.

Entergy Texas, Inc., Docket No. ES15-26-000

Inconsistencies and Errors:

14. On page 20 of the Application, Applicants propose that the Short-Term Debt issued by them that bears interest at a fixed rate bear interest at a rate not to exceed 6 percent. However, Journal Entry (A) in Exhibit C: Pro Forma Accounting Entries to Reflect the Proposed Transactions for Entergy Texas uses a short-term interest rate of 5.5 percent.

15. On page 20 of the Application, Applicants state that, for purposes of preparing the *pro forma* financial statements, they assumed an interest rate of 4.5 percent for Entergy Texas' long-term credit facility. However, Journal Entry (D) in Exhibit C: Pro Forma Accounting Entries to Reflect the Proposed Transactions for Entergy Texas uses an interest rate of 6 percent.

System Energy Resources, Inc., Docket No. ES15-27-000

Inconsistencies and Errors:

16. On page 20 of the Application, Applicants propose that the Short-Term Debt issued by them that bears interest at a fixed rate bear interest at a rate not to exceed 6 percent. However, Journal Entry (A) in Exhibit C: Pro Forma Accounting Entries to Reflect the Proposed Transactions for System Energy Resources uses a short-term interest rate of 5.5 percent.

Entergy Gulf States Louisiana, L.L.C., Docket No. ES15-28-000

Inconsistencies and Errors:

17. On page 20 of the Application, Applicants propose that Short-Term Debt issued by them that bears interest at a fixed rate bear interest at a rate not to exceed 6 percent. However, Journal Entry (A) in Exhibit C: Pro Forma Accounting Entries to Reflect the Proposed Transactions for Entergy Gulf States Louisiana uses a short-term interest rate of 5.5 percent.

18. On page 20 of the Application, Applicants state that, for purposes of preparing the *pro forma* financial statements, they assumed an interest rate of 4.5 percent for Entergy Gulf State Louisiana's long-term credit facility. However, Journal Entry (E) in Exhibit C: Pro Forma Accounting Entries for the Proposed Transactions for Entergy Gulf States Louisiana uses an interest rate of 6 percent.

Entergy Louisiana, LLC, Docket No. ES15-29-000

Inconsistencies and Errors:

19. On page 20 of the Application, Applicants propose that the Short-Term Debt issued by them that bears interest at a fixed rate bear interest at a rate not to exceed 6 percent. However, Journal Entry (A) in Exhibit C: Pro Forma Accounting Entries for the Proposed Transactions for Entergy Louisiana uses a short-term interest rate of 5.5 percent.

20. On page 20 of the Application, Applicants state that, for purposes of preparing the *pro forma* financial statements, they have an interest rate of 4.5 percent for Entergy Louisiana's long-term credit facility. However, Journal Entry (E) in Exhibit C: Pro Forma Accounting Entries for the Proposed Transactions for Entergy Louisiana uses an interest rate of 6 percent.