

ENTERGY CORP /DE/
Form 425
December 17, 2012

ITC/EAI
ITC/EAI
Technical Conference
Technical Conference
December 17, 2012

Transmission Business

Filed

by

Entergy

Corporation

Pursuant

to

Rule

425

Under

the

Securities

Act

of

1933

Subject

Company:

Entergy

Corporation

Commission

File

No.

001-11299

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Entergy Forward-Looking Information
Entergy Forward-Looking Information
In
this
communication,

and
from
time
to
time,
Entergy
makes
certain
forward-looking
statements
within
the
meaning of the Private Securities Litigation Reform Act of 1995.
Except to the extent required by the federal
securities laws, Entergy undertakes no obligation to publicly update or revise any forward-looking statements,
whether as a result of new information, future events, or otherwise. Forward-looking statements involve a
number of risks and uncertainties. There are factors that could cause actual results to differ materially from
those expressed or implied in the forward-looking statements, including (i) those factors discussed in
Entergy's Annual Report on Form 10-K for the year ended December 31, 2011, its Quarterly Reports on
Form
10-Q for the quarters ended March 31, 2012, June 30, 2012 and September 30, 2012, and other filings made by
Entergy with the Securities and Exchange Commission (the "SEC"); (ii) the following transactional factors (in
addition
to
others
described
elsewhere
in
this
communication,
in
the
preliminary
proxy
statement/prospectus
included in the registration statement on Form S-4 that ITC filed with the SEC on September 25, 2012 in
connection with the proposed transactions, and in subsequent securities filings) involving risks inherent in
the contemplated transaction, including: (1) failure to obtain ITC shareholder approval, (2) failure of Entergy
and its shareholders to recognize the expected benefits of the transaction, (3) failure to obtain regulatory
approvals necessary to consummate the transaction or to obtain regulatory approvals on favorable terms, (4)
the ability of Entergy, Mid South TransCo LLC (TransCo) and ITC to obtain the required financings, (5) delays
in
consummating
the
transaction
or
the
failure
to
consummate

the
transaction,
(6)
exceeding
the
expected

costs of the transaction, and (7) the failure to receive an IRS ruling approving the tax-free status of the transaction; (iii) legislative and regulatory actions; and (iv) conditions of the capital markets during the periods covered by the forward-looking statements. The transaction is subject to certain conditions precedent, including regulatory approvals, approval of ITC's shareholders and the availability of financing. Entergy cannot provide any assurance that the transaction or any of the proposed transactions related thereto will be completed, nor can it give assurances as to the terms on which such transactions will be consummated.

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ITC Forward-Looking Information

ITC Forward-Looking Information

This document and the exhibits hereto contain certain statements that describe ITC Holdings Corp. (ITC) management 's beliefs concerning future business conditions and prospects, growth opportunities and the outlook for ITC 's business, including ITC 's business and the electric transmission industry based upon information currently available. Such statements

are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Wherever possible, ITC has identified these forward-looking statements by words such as anticipates, believes, intends, estimates, expects, projects and similar phrases. These forward-looking statements are based upon assumptions ITC management believes are reasonable. Such forward-looking statements are subject to risks and uncertainties which could cause ITC's actual results, performance and achievements to differ materially from those expressed in, or implied by, these statements, including, among other things, (a) the risks and uncertainties disclosed in ITC's annual report on Form 10-K and ITC's quarterly reports on Form 10-Q filed with the Securities and Exchange Commission (the SEC) from time to time and the following transactional factors (in addition to others described elsewhere in this document, in the preliminary proxy statement/prospectus included in the registration statement on Form S-4 that ITC filed with the SEC on September 25, 2012 in connection with the proposed transactions, and in subsequent filings with the SEC): (i) risks inherent in the contemplated transaction, including: (A) failure to obtain approval by the Company's shareholders; (B) failure to obtain regulatory approval necessary to consummate the transaction or to obtain regulatory approvals on favorable terms; (C) the ability to obtain the required financings; (D) delays in consummating the transaction or the failure to consummate the transactions; and (E) exceeding the expected costs of the transactions; (ii) legislative and regulatory actions, and (iii) conditions of the capital markets during the periods covered by the forward-looking statements.

Because ITC's forward-looking statements are based on estimates and assumptions that are subject to significant business, economic and competitive uncertainties, many of which are beyond ITC's control or are subject to change, actual results could be materially different and any or all of ITC's forward-looking statements may turn out to be wrong. They speak only as of the date made and can be affected by assumptions ITC might make or by known or unknown risks and uncertainties. Many factors mentioned in this document and the exhibits hereto and in ITC's annual and quarterly reports will be important in determining future results. Consequently, ITC cannot assure you that ITC's expectations or forecasts expressed in such forward-looking statements will be achieved. Actual future results may vary materially. Except as required by law, ITC undertakes no obligation to publicly update any of ITC's forward-looking or other statements, whether as a result of new information, future events, or otherwise.

The transaction is subject to certain conditions precedent, including regulatory approvals, approval of ITC's shareholders and the availability of financing. ITC cannot provide any assurance that the proposed transactions related thereto will be completed, nor can it give assurances as to the terms on which such transactions will be consummated.

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Additional Information and Where to Find It

Additional Information and Where to Find It

On September 25, 2012, ITC filed a registration statement on Form S-4 (Registration No. 333-184073) with the SEC registering shares of ITC common stock to be issued to Entergy shareholders in connection with the proposed

transactions,
but
this
registration
statement
has
not
become
effective.

This
registration
statement

includes a proxy statement of ITC that also constitutes a prospectus of ITC, and will be sent to ITC shareholders.

In addition, Mid South TransCo LLC (TransCo) will file a registration statement with the SEC registering TransCo common units to be issued to Entergy shareholders in connection with the proposed transactions. Entergy shareholders are urged to read the proxy statement/prospectus included in the ITC registration statement and the proxy statement/prospectus to be included in the TransCo registration statement (when available) and any other relevant documents, because they contain important information about ITC, TransCo and the proposed transactions. ITC shareholders are urged to read the proxy statement/prospectus included in the ITC Registration Statement and any other relevant documents because they contain important information about TransCo and the proposed transactions. The proxy statement/prospectus and other documents relating to the proposed transactions (when they are available) can be obtained free of charge from the SEC's website at www.sec.gov. The documents, when available, can also be obtained free of charge from Entergy upon written request to Entergy Corporation, Investor Relations, P.O. Box 61000, New Orleans, LA 70161 or by calling Entergy's Investor Relations information line at 1-888-ENTERGY (368-3749), or from ITC upon written request to ITC Holdings Corp., Investor Relations, 27175 Energy Way, Novi, MI 48377 or by calling 248-946-3000.

This communication is not a solicitation of a proxy from any security holder of ITC. However, Entergy, ITC and certain of their respective directors and executive officers and certain other members of management and

employees may be deemed to be participants in the solicitation of proxies from shareholders of ITC in connection with the proposed transaction under the rules of the SEC. Information about the directors and executive officers of Entergy, may be found in its 2011 Annual Report on Form 10-K filed with the SEC on February 28, 2012, and its definitive proxy statement relating to its 2012 Annual Meeting of Shareholders filed with the SEC on March 23, 2012.

Information about the directors and executive officers of ITC may be found in its 2011 Annual Report on Form 10-K filed with the SEC on February 22, 2012, and its definitive proxy statement relating to its 2012 Annual Meeting of Shareholders filed with the SEC on April 12, 2012.

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Agenda
Agenda
Morning Session (9:30 am
12:00 pm)
Welcome & Logistics

Vision for Industry Future

Strategic Overview By EAI and Entergy Corporation

Strategic Overview By ITC
Rate Effects

EAI Retail Customer Rate Effects

Rate Construct

Forward Test Year

Bill Effects

Any Potential Impacts on EAI
Generation/Distribution Business

Wholesale Rate Effects Post-MISO

Rate Effects for Co-Ops and Munis Currently
Taking Transmission Service from EAI
Afternoon Session (12:30 pm
5:00 pm)
Rationale for Transaction

Independence

Operational Excellence

Storm Response

Regional Planning

IPL Transaction Experience & Results

Financial Flexibility and Growth

Financial Strength of ITC
Transaction Structure & EAI Specific Implications
Transaction Assets and Value
Wrap Up

Transaction Structure

Debt Issuance/Retirement of EAI Debt

Pre/Post Transaction Capital Structure

Transaction Impact on ADIT Liability

Other Tax Benefits

EAI Credit Ratings Impacts

Other Impacts for EAI

Entergy T-Asset & EAI T-Asset Value

Other Transaction Mechanics

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Significant capital requirements to continue modernizing the grid best handled by an independent operator who can better manage the transmission portion of capital spend

Independent ownership and operation of Entergy Transmission System (ETS)
extracts the greatest benefits in an RTO with a Day 2 market

Consistent with efforts towards independent transmission operation and
ownership

Nation's first, largest, & only publicly-traded independent transmission company

A proven track record of best-in-class performance, improving reliability for ETS

Familiarity
with
MISO
and
committed
to
facilitating
the
MISO
Day
2
Market

Inter-RTO experience applicable to ETS's seams with SPP and other regions

Financially sound with strong investment grade credit ratings & access to capital

Opportunities for greater economies and efficiencies

Final step in over a decade of work to pursue best management structure for ETS

Eliminates perception of bias towards dispatching ETR owned resources

Comparable
sizes
of
ITC's
and
the
EOCs
(Entergy
Operating
Companies)

transmission businesses allows for a tax efficient transaction not necessarily
available in future

ITC Transaction is the Right Transaction

ITC Transaction is the Right Transaction

with the Right Partner at the Right Time

with the Right Partner at the Right Time

The right
transaction...
...with the
right
partner...
at the right
time

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U.S. Transmission Grid

U.S. Transmission Grid

Historically Fragmented and Inefficient

Historically Fragmented and Inefficient

U.S. Electric Power Transmission Grid

More than 211,000 high voltage transmission
line miles

Operated by ~130 balancing authority areas
(ownership is even more fragmented)

Source: FEMA, NERC

Historically, transmission
infrastructure development in

the U.S. primarily

focused on connecting load

and resources within

balancing authority areas,

with little interregional or

national perspective

In contrast,

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Introduction

Industry Evolution

ITC s Business Model

ITC s Proven Track Record

Benefits Beyond MISO

Transaction Value for Arkansas

Strategic Overview

Strategic Overview

ITC

ITC

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(9:30

am

12:00

pm)

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(12:30

pm

5:00

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Wrap Up

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10
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Illustrative

Note: Residential bills are the average of the Typical Monthly Bills in that year for a residential customer using 1,000 kWh, ex
Henry Hub Gas

Index (\$/mmBtu)

2.7
3.1
5.4
5.9
8.3
6.5
6.9
9.0
3.8
4.4
4.0
Henry Hub Gas Index (\$/mmBtu)
15
10
5
0
EAI Avg. Monthly Residential Bill-
1,000 kWh(\$)
150
100
50
0
-13%
2011
94.23
2010
97.78
2009
108.00
2008
97.81
2007
95.15
2006
98.17
2005
90.25
2004
73.15
2003
83.28
2002
87.65
2001
93.53
13% reduction in
customer bills since
2009
Henry Hub Gas Index
Significant Variability in Average Residential Bills

Significant Variability in Average Residential Bills

Yearly Variation Between \$3 and \$17 Over 2001-2011

Yearly Variation Between \$3 and \$17 Over 2001-2011

+17.10

(+23%)

(+3%)

+2.67

EAI

Avg.

Monthly

Residential

Bill

-

1,000

kWh(\$)

11
11
11
Typical EAI Customer Bill
4.3%
Transmission
Non-Transmission

95.7%

Transmission Constitutes a Small Portion

Transmission Constitutes a Small Portion

of a Typical EAI Customer's Total Bill

of a Typical EAI Customer's Total Bill

Note: Average of January 2011 – December 2011 typical bills for a residential customer using 1,000 kWh per month; non-tran monthly bill includes fuel and portions of the fixed customer charge and energy charge allocated to generation and distribution as the inclusion of various riders.

12
12
12

Transition from current retail rate construct to FERC-regulated rate construct
expected for ITC

Analysis assumes MISO base ROE for new ITC operating companies (12.38%) and capital structure currently utilized by ITC operating companies (60% equity/40% debt)

Benefits
of
credit
quality
improvement
resulting
from
transition

to
FERC-
regulated rate construct partially offset ROE and capital structure impacts
Rate Impacts Split into Rate Construct, Rate Timing,
Rate Impacts Split into Rate Construct, Rate Timing,
and Other Effects for Retail Customers
and Other Effects for Retail Customers
Rate
Construct
Effects
Rate
Timing
Effects

Forward
Test
Year:
Eliminates
regulatory
lag
in
recovery
of
capital
investments

One time impact of conversion to forward test year

Reflects amounts that would have been collected in future years

Current
estimation
reflects
effect
of
paying
load
ratio

share
of
Transmission
cost factoring in zonal investment (single AR zone) and retail share of
Transmission investments
Other Effects

13
13
13
20
10
0
~1.22

1.3%

Illustrative Bill

if ITC owns

T assets

post-

transaction

~95.45

2014

Net Other

Effects

~0.00

2014

WACC

Effects

~1.22

Illustrative

Bill if ETR

owns

T assets

status quo

94.23

EAI

Residential

Bill

1,000

kWh

(\$)

110

100

90

80

70

60

50

40

30

Note:

\$94.23

is

the

average

of

the

2011

Typical

Monthly

Bill

for

a

residential
customer
using
1,000
kWh,
excluding
taxes.

Calculation
is
indicative
of

the rate effects of the spin-merge transaction and is not meant to project an actual future customer bill. Illustration does not include such as adoption of forward test year.

Note:

Contents exclude estimated
one-time 2014 rate timing
effect of \$0.51 due to
conversion to forward test
year
reflects amount that
would have been collected in
future years

EAI Typical Residential Customer Bill
EAI Typical Residential Customer Bill

Modest
Modest
Increase
Increase

in
in
2014
2014
of
of
1.3%
1.3%

Expected
Expected
Mitigation by Customer Benefits
Mitigation by Customer Benefits
Over the long term,
customer bill effects
expected to be mitigated
by...

Enhanced Financial
flexibility

Operational Excellence

Independent and
transparent ITC model

Regional Planning

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Modest Effects of 1.2

Modest Effects of 1.2

1.5%

1.5%

Select Commercial and Industrial Classes

Select Commercial and Industrial Classes
Expected Mitigation by Customer Benefits
Expected Mitigation by Customer Benefits
2014 Transaction Bill Effects

Retail
Selected
Retail
Classification
Retail Class
Description
Typical
Bill
WACC
Effects
Net
Other
Effects
Total
Effect
%

Change
EAI
SGS
25 kW, 25% Load Factor
\$408.91
4.96
0.00
4.96
1.2%
LGS
250 kW, 55% Load Factor,
Summer
\$7,241.79
110.32
0.00
110.32
1.5%

Note: Calculation indicative and illustrative of the rate effects of the spin-merge transaction and is not meant to project an actual customer bill.

Contents
exclude
estimated
one-time
2014
rate
timing
effect
due
to

conversion
to
forward
test
year

reflects
amount
that
would

have been collected in future years. Based on August 2011 typical customer bill.

15
15
15
EAI

\$94.23
Sensitivity of Rate Effects

Sensitivity of Rate Effects
to Variations in Spend
to Variations in Spend
EAI

\$94.23

+ \$0.12

O&M

Spend

1.

Typical

EAI

bill

of

\$94.23

represents

the

average

of

the

2011

Typical

Monthly

Bills

for

residential

customer

using

1,000

kWh,

excluding

taxes.

Note: Calculation is indicative and illustrative of the rate effects of the spin-merge transaction and is not meant to project an ac

+ \$0.04

Capital

Expenditure

Spend

Typical Monthly

Residential

Bill

1

Sensitivity to

10% Increase

in Spend

\$1.22

\$1.22

Total

Transaction

Bill Effect

Typical Monthly

Residential

Bill

1

Sensitivity to

10% Increase

in Spend

Total

Transaction

Bill Effect

-

\$0.12

-

\$0.04

Sensitivity to

10% Decrease

in Spend

Sensitivity to

10% Decrease

in Spend

16

16

16

Change in How Wholesale Rates are Determined Due to

Change in How Wholesale Rates are Determined Due to

Adoption of MISO's 12 CP Demand Methodology

Adoption of MISO's 12 CP Demand Methodology

A
\$ 1.85 / kWm

B
\$ 2.43 / kWm

In both methodologies aggregate amount paid by customer consuming a certain amount of Transmission service will remain the same

Note: Amount paid remains the same because the customer consumes the same amount of transmission service in both methodologies. The methodology affects the units of measuring rates and the units of measuring consumption but the amount paid is same and is related to the amount consumed.

Current ETR

OATT

2014 Transmission

Net Revenue Requirement

Single

annual peak demand x 12 months

ETR OATT with 12 CP

2014 Transmission

Net Revenue Requirement

Aggregated 12 coincident peaks (CP) demand

over

year

Same

Revenue Requirement numerator

Sum

of peak demands in each month of year

Same

Revenue Requirement numerator

Lower

demand

denominator

Same

Revenue Requirement numerator

Single highest

peak in a months x 12 months

Same

Revenue Requirement numerator

Higher demand denominator

17
17
Wholesale Rate Effects Reduced
Wholesale Rate Effects Reduced
for EAI Customers Post Transition to MISO
for EAI Customers Post Transition to MISO
2.5

2.0
1.5
1.0
0.5
0.0

2.41
Estimated Net Rate Effect
of adopting default MISO
ROE and implementing 4
Transmission Pricing Zones
(0.02)

Estimated 2014 WS rates
paid under ETR OATT
under One Transmission
Pricing Zone

2.43
Estimated 2014 Wholesale Transmission Rate Effects
using 12 CP methodology
(\$/kWm)

Note: Calculation
indicative
and
illustrative
is
not
meant
to
project
an
actual
future
customer
bill.

Estimates
are
preliminary
and
draft
prior
to
rate
filings
in first quarter of 2013
Wholesale rate
effects estimation
does not factor
in any production
costs savings and
other benefits to
be achieved

through transition
to MISO RTO

Illustrative

Rates have been estimated using 12 CP methodology used under MISO Attachment O. Current ETR OATT methodology uses a single annual peak rather than 12 CP. Change in methodology does not imply a change in Revenue Requirements hence customers do not pay different amounts under 12 CP employed by MISO vs. single annual peak employed by ETR. The equivalent number to \$2.43 /kWh under 12 CP would be a \$1.85 /kWh under single annual peak. The per unit estimation may be different but the amount paid by the customer is the same.

Estimated 2014 WS rates

post transition to MISO

with 4 Transmission

Pricing Zones

18

18

18

Transaction-Related Filings Pending Before the
Transaction-Related Filings Pending Before the
Federal Energy Regulatory Commission
Federal Energy Regulatory Commission

Joint ITC/Entergy Corp/ESI/EOCs filing:

Transaction approval (FPA 203)

Formula rate and related agreements approval (FPA 205)

Declaratory Order regarding dividend payments from capital accounts (FPA 305)

ESI

filing

on

behalf

of

EOCs:

Ancillary

services

tariff

(to

cover

potential period before MISO provision)

ESI

filing

on

behalf

of

EOCs:

Amends

the

Entergy

System

Agreement to delete MSS-2 upon closing of the Transaction

ITC

filing:

Authorization

for

financing

(FPA

204)

ESI

filing

on

behalf

of

the

Wires

Subs:

Authorization

for

(FPA 204)

EOCs

filing:

Authorization

for

financing

(FPA

204)

1Q2013, EAI and other EOCs will file MISO Attachment O formula rate at the FERC to be effective in the event the ITC transaction is not consummated

MISO

filing:

Module

B1,

Interim

provisions

for

integration

of

the

transmission assets into MISO if Transaction closes before full

Entergy-MISO integration

EC12-145-000

ER12-2681-000

EL12-107-000

ER12-2682-000

ER12-2683-000

ER12-2693-000

ES13-5-000

ES13-6-000

financing

ES11-40-002

financing

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19
19
2014 Rate Effect from ITC Transaction for
2014 Rate Effect from ITC Transaction for
Typical Arkansas Wholesale Customer
Typical Arkansas Wholesale Customer

Expected Mitigation by Customer Benefits

Expected Mitigation by Customer Benefits

Note:

Excludes estimated one-time rate effect of ~\$0.16

due to conversion to

forward test year

reflects

amounts that would have

been collected in future

years

* Reflects ETR transition into MISO including establishment of four transmission

pricing zones and 12.38% ROE

(1) Does not apply to GFA customers

Illustrative

Estimated EAI Wholesale Transmission Rate Effects

(\$/kWh)

(1)

Expected FERC Construct

Effects

\$2.41

\$2.61

-\$0.08

\$0.28

Net effect of

~\$0.20 or ~8.1%

Customer bill effects

expected to be

mitigated by...

Operational Excellence

Reliability, System

Performance, etc.

Independent and

Transparent ITC Model

Enhanced Financial

Flexibility

Regional Planning

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Independence

Operational Excellence

Storm Response

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IPL Transaction Experience & Results

Financial Flexibility and Growth

Financial Strength of ITC
Transaction Structure & EAI Specific Implications
Transaction Assets and Value
Wrap Up

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Debt Issuance/Retirement of EAI Debt

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Transaction Impact on ADIT Liability

Other Tax Benefits

EAI Credit Ratings Impacts

Other Impacts for EAI

Entergy T-Asset & EAI T-Asset Value

Other Transaction Mechanics

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Transaction Rationale:

Transaction Rationale:

In the Public Interest

In the Public Interest

Independent model

Singular focus

Transaction
results
in
two
companies
that
are
more
specialized
and
focused

ITC
on transmission and Entergy on generation and distribution

Operational excellence, cost efficiency, customer focus
Wholesale markets and a regional planning view

Transaction
facilitates
infrastructure
investment
and
fosters
competition

activities
that enhance wholesale electricity markets

Structural separation of the transmission business from generation and distribution
businesses encourages greater participation in the transmission planning process
and disclosure of information by third parties

Independent model aligns with national policy objectives
Financial strength and flexibility

Transaction will yield separate companies with strong balance sheets and greater
capability
to
finance
the
infrastructure
investment
requirements
today
and
in

the
future

Proven independent business model for owning and operating transmission systems
Independence from all buyers and sellers of electric energy allows ITC to plan
improvements to the electric transmission grid for the broadest public benefit

Independent Model
Independent Model
Benefits of ITC Independent
Transmission Model
Operational
Excellence
Transparency

Infrastructure
Investment
High Credit
Quality
Public Policy
Alignment
Facilitate Generator
Interconnection
Customer
Focus
22
Reliability

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Data from the SGS Study benchmarking study can be used to quantify the resulting improved reliability

Operational Excellence:

Operational Excellence:

Quantitative Value of Reliability

Quantitative Value of Reliability

The calculation is based on data for the two largest load serving entities in Michigan from 2010 and 2011, with major storms e and METC data reflect a three year average SAIDI from the SGS Study, given that performance changes year over year.

The U.S. Department of Energy's Office of Electricity Delivery and Energy Reliability has developed a tool to estimate interruption costs and the benefits associated with reliability improvements

A one minute improvement in System Average Interruption Duration Index (SAIDI) for ITC Transmission and METC results in one year savings of \$7.7M

Compared to the performance of the median utility in the SGS Study, this amounts to a value of about \$153 million per year delivered by ITC's Michigan utilities

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Utilize standard equipment when possible to drive greater efficiencies (e.g. breaker replacement completed in two versus six weeks)

Utilize equipment with track record of longer life, resulting in lower maintenance and replacement costs

Engage in strategic alliances to ensure that needed equipment is available to meet project timelines

Purchasing power leads to better pricing when buying large volume of transmission equipment

Cost Efficiencies

Cost Efficiencies

Standardization and Specialization

Standardization and Specialization

Ability to attract and retain personnel with high levels of interest and expertise in electric transmission avoids turnover and training costs (important when facing near-term shortage of skilled workers)

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25

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Customer Focus

Customer Focus

Dedicated Stakeholder Relations group for all stakeholders,

providing advocacy and issue resolution at ITC

Stakeholders include investor-owned, municipal and cooperative utilities, independent power producers and retail load of large industrial and commercial retail customers connected at transmission level voltages

Proactively meet with stakeholders to identify stakeholder issues and resolve any concerns through one-on-one meetings and semi-annual

Partners
in
Business
meetings

Energy policy, legislative and regulatory matters

Capital project, transmission planning and preventive maintenance

Operations preparedness for summer peak load and storm events

Transmission rates

Timely customer communication

Storm restoration

Planned outages to eliminate or minimize any potential risk and costs to industrial processes

Unplanned outages regarding cause, estimated duration, and future prevention

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Storm Response

Storm Response

Utilizing Best Practices

Utilizing Best Practices

ETR System Incident

Commander (SIC)
ITC System Incident
Commander (SIC)
System Section
Chiefs
System Planning
Section Chief
System Resource
Section
System Logistics
Section
Restoration
Prioritization Branch
Director
ITC Section
Chiefs
Entergy Liaison
Coord.
(New position)
ITC Technical/Management
employee assigned to
ETR System Command
Center in Jackson, MS
ITC employee
ETR employee
Functional Incident
Commanders
(ex. Fossil, EOC,
Nuclear, Gas)
Storm response organization will be modified to ensure
close coordination and interaction between Entergy and ITC
EAI
Customer
Customer
ITC Planning
Section
ITC Logistics
Section
ITC Resource
Section
Transmission Prioritization
Resource Coordination
Logistics Coordination

27

27

27

Fosters Regional Planning

Fosters Regional Planning

ITC has track record of planning its transmission systems to:

Address local, state, and regional reliability needs

Increase the economic efficiency of the overall grid

Respond to transmission needs identified in state and regional processes

When deficiencies are identified on the transmission system, such as inadequate capacity to meet load under certain contingency conditions, ITC's transmission planners develop transmission system reinforcements to address those deficiencies

ITC is committed to planning its transmission system in an open and transparent manner. As such, ITC has its own processes that supplement the already-robust open and transparent processes used by MISO

Transaction enhances customer benefits beyond what could be achieved through the Entergy Operating Companies proposed MISO membership

ITC has proven it has the expertise, resources, and capital not only to plan but also to construct needed investment

ITC's regional approach to transmission planning will enhance deliverability of generation throughout the region to provide a more economic source of energy for customers

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28

28

IPL Transaction Experience & Results

IPL Transaction Experience & Results

ITC has invested approximately \$1.1 billion to improve the ITC

Midwest transmission system since acquisition of IPL assets

Primarily needed to upgrade and improve existing lines and substations, construct new lines to serve load growth and improve reliability, and provide interconnection for new load and generation

Major activities:

Built 26 new substations

Completed 32 major substation upgrades/expansions

Built nearly 26 miles of new line

Rebuilt nearly 400 miles of existing lines

Added four and replaced three major transformers

Key Project: Salem-Hazleton

ITC Midwest reduced sustained outages from those experienced in 2008 (the last year IPL operated and maintained the system) by 50% in 2009, 24% in 2010, and 58% in 2011

81-mile, 345 kV line connecting Dubuque and Buchanan

Counties in eastern Iowa

Regional planning had long identified as needed to resolve system constraints and reduce energy costs.

Expected completion: 2013

ETR Utilities
ETR Utilities
Capital Needs
Capital Needs
Could Total ~\$13B-16B Over 2012-2018
Could Total ~\$13B-16B Over 2012-2018
Actual and Forecast Entergy Utilities Investment
(\$B)
0
5
10
15
20
1999-2004

2005-2011

2012-2018

Projected base capital plan as of August 2012

Past storm capital

Actual excluding storms

Potential spend

3

Average

2

= \$1.9B -

\$2.3B

Total = \$13.0B -

\$15.8B

Average

1

= \$1.4B -

\$1.7B

Total = \$9.7B -

\$11.7B

Average

1

= \$1.1B

Total = \$6.5B

???

Effect of EPA rules?

Aging infrastructure?

1. Range

based

on

actuals

plus

storm

capital.

2.

Range

based

on

projections

of

ETR

Utilities

base

capital

plan

plus

potential

spend

3.

Potential

spend

related
to
potential
economic
development
projects,
potential
new
generation
investment,
and
potential
new
storm
spend.
Potential
storm
spend
for

forward looking period is an estimate based on annual average spend over 2005-10 to illustrate potential of capital requirements

Potential spend is not included in base capital plan

Note: *ETR Utilities includes EAI, ELL, EGSL, EMI, ETI, ENO, SERI, ESI, EOI, SFI.*

29

30

30

30

EAI Total Capital Needs Could Total

EAI Total Capital Needs Could Total

~\$3.4B -

~\$3.4B -

\$3.7B Over 2012-2018

\$3.7B Over 2012-2018

Actual and Forecast Capital Investment
for EAI (\$B)

3

1

1999-2004

2005-2011

2012-2018

2

4

0

Actual excluding storms

Potential spend

3

Base case -
conservative

Past storm spend

Average

2

= \$492M -

\$523M

Total = \$3.4B -

\$3.7B

Average

1

= \$316M -

\$342M

Total = \$2.2B -

\$2.4B

Average

1

= \$295M

Total = \$1.8B

???

Effect of EPA rules?

Aging infrastructure?

1. Range based on actuals plus storm capital. 2. Range based on projections of EAI's base capital plan plus potential spend 3. related to potential economic development projects, potential new generation investment, and potential new storm spend. Potential spend for forward looking period is an estimate based on annual average spend over 2005-10 to illustrate potential of capital requirements. Potential spend is not included in base capital plan.

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31

31

Note: Historical data excludes storm capital, as there is no capital associated with future storms in base capital plan projections

Numbers presented are only for EOCs (EAI, EGSL, ELL, EMI, ETI, ENO) and excludes SERI/ESI

EOCs

EOCs

Transmission Capital

Transmission Capital

Could Total ~\$3.5B Over 2012-2018

Could Total ~\$3.5B Over 2012-2018

Average = \$254M

Total = \$1.8B

Average= \$502M

Total = \$3.5B

Actual and Forecast Transmission Investment for EOCs

(\$B)

2005-2011

1999-2004

2012-2018

0

2

1

4

3

Projected base case capital

plan as of August 2012

Actual

Average= \$200M

Total = \$1.2B

Transmission Capital Spending for EOCs Could Increase

Nearly 100% in the Next Seven Years

32

32

32

Note: Historical data excludes storm capital, as there is no capital associated with future storms in base capital plan projections

EAI Transmission Capital

EAI Transmission Capital

Could Total ~\$1B Over 2012-2018

Could Total ~\$1B Over 2012-2018

Average = \$61M

Total = \$429M

Average= \$137M

Total = \$962M

Actual and Forecast Transmission Investment for EAI

(\$M)

1,000

400

1999-2004

2005-2011

800

2012-2018

0

200

600

Average= \$53M

Total = \$319M

Transmission Capital Spending for EAI Could Increase

Nearly 124% in the Next Seven Years

Projected base case capital

plan as of August 2012

Actual

33

33

33

EAI Transmission CapX as Multiple of Depreciation

EAI Transmission CapX as Multiple of Depreciation

More Than Twice as High as Non-Transmission

More Than Twice as High as Non-Transmission

EAI Average CapX as Multiple of Depreciation
(2012-18 Average)

4

2

1

0

1.6

3.8

3

Transmission

Non-

Transmission

For EAI,

Transmission

Constitutes ~43% of

Capital in Excess of

Depreciation, despite

being 17% of rate

base

Note: Based on figures filed in testimony at APSC

34
34
34
Benefits from
Benefits from
Financial Flexibility for Entergy
Financial Flexibility for Entergy

Utility Operating Cash Flow Minus
Cash Construction Expenditures

2014E

2018E; \$B

Status Quo

With ITC

Transaction

Utility Debt Obligations

2018E; \$B

Status Quo

With ITC

Transaction

Note: As detailed in direct testimony, Transaction has two separate effects on remaining entity's cash flow:

OCF: EOCs no longer earn on transmission rate base spun-off (negative effect on cash flow)

Cash Construction Expenditures: transmission related cash capital requirements go away (positive effect on cash flow for EOC)

Net
effect

on

EOCs

is

positive

as

transmission

Cash

Construction

Expenditures

over

2014-2018

is

higher

than

transmission

OCF

Stronger Utility Balance Sheet Improves Ability

to Invest in Generation and Distribution

4.34

5.20

0

2

4

6

0

3

6

9

12

20%

\$2.7B

Transmission-Related Cash

Capital Requirements Go

Away

35

35

35

Benefits from Financial Flexibility for EAI

Benefits from Financial Flexibility for EAI

Transmission-Related Cash

Capital Requirements Go

Away
EAI Operating Cash Flow Minus
Cash Construction Expenditures
2014E
2018E; \$M
Status Quo
With ITC
Transaction
EAI Debt Obligations
2018E; \$M
Stronger Balance Sheet Improves Ability
to Invest in Generation and Distribution
Status Quo
With ITC
Transaction

Note: As detailed in direct testimony, Transaction has two separate effects on remaining entity's cash flow:

OCF: EOCs no longer earn on transmission rate base spun-off (negative effect on cash flow)

Cash Construction Expenditures: transmission related cash capital requirements go away (positive effect on cash flow for EOCs)

Net
effect

on
EOCs
is
positive

as
transmission
Cash
Construction
Expenditures
over
2014-2018

is
higher
than
transmission

OCF

0
400
200
800
600

1,000
0
2,000
1,000

3,000
57%

\$801M

36

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Financial Strength and Flexibility

Financial Strength and Flexibility

Transaction offers the financial strength of ITC and improves that of EAI to support the escalating capital investment requirements facing the electric

industry

ITC has a singular focus with no internal competition or competing priorities for capital or other resources; provides a stronger, separate balance sheet to support the transmission capital requirements

ITC better positioned to efficiently capitalize the significant and sustained level of transmission investment required in the Entergy region, including Arkansas

Post-close, EAI would be better positioned to attract capital separately to finance needed

investments

in

generation

and

distribution

at

lower

costs

and

to

manage

future uncertainty regarding event risk (e.g., new regulatory requirements or major storms)

ITC's MISO operating companies are deemed to be of higher credit quality than EAI, as well as most vertically-integrated utilities

Enables consistent and predictable access to cost-effective capital, even during challenging economic times; supports enhanced liquidity

Given significant and sustained level of transmission capital investment requirements, as well as unforeseen needs, credit quality and access to capital are paramount

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Credit Quality Enhancement Overview

Credit Quality Enhancement Overview

Debt Cost Savings

Debt Cost Savings

FERC rate construct utilized by ITC's operating companies viewed favorably by the rating agencies and investors, which supports lower funding costs

ITC is seeking FERC rate construct for its new operating companies as part of this transaction

Results in lower borrowing costs of approximately 55 bps to 195 bps relative to the status quo EOCs, depending on market conditions

Reflected in both the initial capitalization of the new ITC operating companies, including ITC Arkansas, as well as future debt financings to fund transmission investment requirements

Aggregate debt financing cost savings estimated in the range of \$24 million to \$27 million in 2014 (first full year of ownership) for the new ITC operating companies

Over a five-year period (2014-2018), estimate debt cost savings for the new ITC operating companies in a range of approximately \$125 million to \$156 million (in nominal dollars)

Expect new ITC operating companies to have ratings equivalent to that of ITC's existing MISO operating companies

Merger between Entergy's Transmission Business and ITC is expected to lead to material interest expense savings, which will benefit Entergy's customers

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Agenda
Agenda
Morning
Session
(9:30

am

12:00

pm)

Welcome & Logistics

Vision for Industry Future

Strategic Overview By EAI and Entergy Corporation

Strategic Overview By ITC

Rate Effects

EAI Retail Customer Rate Effects

Rate Construct

Forward Test Year

Bill Effects

Any Potential Impacts on EAI

Generation/Distribution Business

Wholesale Rate Effects Post-MISO

Rate Effects for Co-Ops and Munis Currently

Taking Transmission Service from EAI

Afternoon

Session

(12:30

pm

5:00

pm)

Rationale for Transaction

Independence

Operational Excellence

Storm Response

Regional Planning

IPL Transaction Experience & Results

Financial Flexibility and Growth

Financial Strength of ITC

Transaction Assets and Value

Entergy T-Asset & EAI T-Asset Value

Other Transaction Mechanics

Wrap Up

Transaction Structure

Debt Issuance/Retirement of EAI Debt

Pre/Post Transaction Capital Structure

Transaction Impact on ADIT Liability

Other Tax Benefits

EAI Credit Ratings Impacts

Other Impacts for EAI

Transaction Structure & EAI Specific Implications

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Transaction Overview

Transaction Overview

Entergy

Shareholders

Transmission

Business

\$1,775M of new
debt will be raised

~\$1.2B of the new
debt will be raised

at the transmission

operating companies

~\$575M will be

raised directly by

Entergy and will be

subject to a debt-

for-debt exchange

with debt issued by

MidSouth TransCo

Mid South

TransCo

TransCo

OpCos

(Six)

Entergy will create

and distribute
shares of Mid South
TransCo to Entergy
shareholders
(Mid South TransCo
will own all of
Entergy's
transmission
operating
companies upon
separation)
Immediately
prior to the
merger, ITC will
distribute \$700M
to existing
shareholders,
funded by new
debt at ITC
Holdings
(Required to
align ITC's
equity value with
that of the
Entergy
Transmission
Business)
ITC
Shareholders
Entergy
Shareholders
Mid South
TransCo
TransCo
OpCos
(Six)
Entergy
Shareholders
ITC
Shareholders
Merger Sub
ITC Merger Sub will then immediately merge
with the Mid South TransCo, and Entergy
shareholders will receive 50.1% ownership in
the combined company

- 1
- 2
- 3
- 4

40
40
Post Spin-Merge
Post Spin-Merge
Transaction Structure
Transaction Structure
100%

Entergy
Shareholders
Mid South
TransCo LLC
OpCos
ITC
Shareholders
ITC
OpCos
49.9%

41

41

41

\$1.775B of Debt Proceeds Used to Retire Preferred
\$1.775B of Debt Proceeds Used to Retire Preferred
and Pay Down Debt in Proportion to Transmission Assets
and Pay Down Debt in Proportion to Transmission Assets

For EAI, the amounts will be undertaken to maintain the targeted capital structure outlined in EAI's last rate case, docket 09-084-U maintaining the Total Equity Percentage at around 46% pre and post transaction

For the remaining EOCs, the allocations were estimated to target a post-transaction WACC for each EOC that is substantially unchanged from the pre-transaction weighted average cost of capital.

EOC

Amount (\$M)

EAI

502

EGSL

263

ELL

413

EMI

290

ENO

22

ETI

284

Total

1,775

1. Based on May 2012 OATT filings 2. Based on August 2012 Projected Estimates for T-assets to be spin-merged at time of transaction

The amount of debt proceeds allocated to each EOC is an estimate based on a forecast

The final amounts allocated to each EOC may vary to the extent forecast assumptions differ from the circumstances that exist at the time of closing.

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EAI will Target to Maintain Capital Structure in Line with

EAI will Target to Maintain Capital Structure in Line with

APSC Rate-Making Guidelines Substantially the Same

APSC Rate-Making Guidelines Substantially the Same

Pre-
Pre-
and Post-Transaction
and Post-Transaction
APSC Staff Methodology
and Guidelines
Preferred treated as equity in capital structure
54% -
46% debt to equity ratio in capital structure
Preferred and Debt in proportion to Transmission assets for EAI will be
retired such that the 54% -
46% debt to equity ratio will be maintained
Pre-Transaction
% of Cap
Struct
Common
Equity
43%
Preferred
3%
Debt
54%
Post-Transaction
% of Cap
Struct
Common
Equity
46%
Preferred
0%
Debt
54%
46%
46%
Other EOCs will retire debt and preferred in order to keep WACC approximately
the same pre-
and post-transaction

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All EAI Credit Metrics are Expected
All EAI Credit Metrics are Expected
to Improve Through the Transaction
to Improve Through the Transaction

1. Testimony of Dr. Michael Tennican before the APSC, Docket 12-069-U
Direct Testimony of Expert Witness Dr. Michael Tennican

will
reduce
EAI s
total
debt
and
total
capitalization...

...will
eliminate
substantial
capital
expenditures
for
transmission

...will
reduce
EAI s
debt
financing
needs...

...will
strengthen
EAI s
credit
metrics

should
help
retain
EAI s
current
investment-grade
rating...

...should
reduce
the
interest
costs
that
would
have
to

be
borne
by
EAI's
customers...

...should
facilitate
EAI's
access
to
debt
capital
even
in
difficult
market
conditions...

...all of the credit metrics used by both Moody's and S&P are
enhanced by the Transaction...
Any potential credit ratings improvement for EAI could result in
savings for EAI customers through lower cost of debt

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EEI Data: 54% of Utilities Ended at a

EEI Data: 54% of Utilities Ended at a

Lower Credit Grade in 2011 Compared to 2001

Lower Credit Grade in 2011 Compared to 2001

Cumulative % of Companies at Lower/Higher Rating

in 2011 Compared to 2001

54

Downgrades

No changes

Total

100

19

27

Upgrades

Source: EEI 2011 Q3 Credit Ratings Charts

45
45
45
Transaction
protects EAI from
credit downgrade
which could cost

customers
in additional
interest costs
from 2014-2018
Utility Bond Yields by Credit
Rating vs. Treasury Bills
(Ten-Year Average Spreads)

-16

A2

155

Baa3

400

200

0

-25

-37

-149

129

Baa1

Baa2

171

208

Ba2

357

bps

Transaction Protects EAI from

Transaction Protects EAI from

Negative Impact to Credit Ratings

Negative Impact to Credit Ratings

Estimates are hypothetical forecasts to illustrate effect on cost of debt and
benefits

to

customers

exact

values

will

depend

on

market

conditions

Source: Bloomberg Fair Value 10-year credit ratings for utilities.

Current EAI

credit rating at

Baa2

Transaction

protects EAI from

credit downgrade

risk; one notch

hypothetical

downgrade could
increase cost of
debt by 37 bps

46
46
46

Comparable
equity
values

of
ITC
and
the
Entergy
Operating
Companies
combined
T-business *at this point*
in time enable execution of a Reverse Morris Trust
transaction structure where T-business is spun-off to existing ETR shareholders and
merged with ITC

Through
the
Reverse
Morris
Trust
Transaction
structure,
EAI
will
not
incur
a
tax
liability

Under a taxable transaction, the tax basis of EAI's transmission assets would be
reset
and
Accumulated
Deferred
Income
Taxes
(ADIT)
would
be
re-measured,
resulting in lower balances of ADIT

Because ADIT ultimately lowers T-rates in cost of service ratemaking, re-measuring
ADIT would otherwise result in higher T-rates in a taxable transaction, all other
things being equal

As
a
result
of
the

RMT
transaction
structure,
EAI s
transmission
assets
will
have
the
same tax basis post-transaction
as they had prior to the Transaction

Accordingly,
the
negative
rate
effects
for
customers
that
otherwise
would
have
resulted
from
a
change
in
tax
basis
under
a
taxable
transaction
are
avoided

RMT Transaction Structure Avoids Re-Measurement of
RMT Transaction Structure Avoids Re-Measurement of
ADIT Preserving Tax Basis for EAI and Protecting Customers
ADIT Preserving Tax Basis for EAI and Protecting Customers
from Negative Rate Effects of a Taxable Transaction
from Negative Rate Effects of a Taxable Transaction

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Morning Session (9:30 am
12:00 pm)
Welcome & Logistics
Vision for Industry Future
Strategic Overview By EAI and Entergy Corporation

Strategic Overview By ITC
Rate Effects
EAI Retail Customer Rate Effects
Rate Construct
Forward Test Year
Bill Effects
Any Potential Impacts on EAI
Generation/Distribution Business
Wholesale Rate Effects Post-MISO
Rate Effects for Co-Ops and Munis Currently
Taking Transmission Service from EAI
Agenda
Agenda
Afternoon Session (12:30 pm
5:00 pm)
Rationale for Transaction
Independence
Operational Excellence
Storm Response
Regional Planning
IPL Transaction Experience & Results
Financial Flexibility and Growth
Financial Strength of ITC
Transaction Structure & EAI Specific Implications
Transaction Structure
Debt Issuance/Retirement of EAI Debt
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Transaction Impact on ADIT Liability
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Wrap Up

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Net Transmission Assets Being Transferred to ITC
Net Transmission Assets Being Transferred to ITC
(Estimated/Forecasted Values as of December 31, 2013)
(Estimated/Forecasted Values as of December 31, 2013)
EOC

\$B *

EAI

0.8

EGSL

0.5

ETI

0.5

ELL

0.7

EMI

0.5

ENO

0.0

Total

3.2

The level of net assets at each Entergy Operating Company is an estimate based on a forecast.

Net asset estimates are based on the Entergy Operating Company base capital plan forecasts.

The final amounts at each Entergy Operating Company may vary to the extent forecast assumptions differ from the circumstances that exist at the time of closing.

Net Transmission Assets include net plant assets and liabilities

* Dollars rounded to billions

and may not add due to rounding

49
49
49

ITC's financial advisors, JP Morgan and Barclays, as well as Entergy's financial advisor, Goldman Sachs, have each rendered fairness opinions regarding the value of the transaction

Ultimately,
the
assessment
as
to
whether
the
transaction
is
fair
was
based
on
a
relative
value
analysis

Other Transaction Considerations
Other Transaction Considerations
Merger
Considerations
Transaction
Mechanics
Goodwill
3
Party
Valuation

ITC
stock
will
be
issued
to
Entergy
shareholders
in
exchange
for
their
shares
of
the
Entergy
Transmission Business in a stock-for-stock merger

Sufficient shares issued for Entergy shareholders to own 50.1% of the combined business

ITC will also assume \$1.775 billion of debt to be issued by Entergy Transmission Business

Immediately prior to close, ITC will effectuate a \$700 million recapitalization to align ITC's equity value with that of Entergy's Transmission Business

Post-recapitalization, the number of shares issued to Entergy shareholders will be determined by the exchange ratio which can generally be calculated by multiplying (i) ~1.0x by (ii) the # of ITC shares on an agreed upon date approximately 20 trading days prior to close

Goodwill will be calculated as the difference between the consideration transferred at closing and the fair value of net assets acquired and liabilities assumed at close

It is not possible to exactly estimate goodwill at closing as it depends on the following variables:

ITC's stock price at closing

The exact # of shares to be issued to Entergy shareholders at closing

The fair value of the net assets acquired and liabilities assumed at closing

Irrespective of the amount of goodwill

estimated
at
closing,
ITC
will
not
seek
recovery
of
any
goodwill
associated with the transaction

Customer rates will in no way be impacted by any goodwill associated with the transaction

* Please
refer
to
the
Merger
Agreement
dated
December
4,
2011
for
additional
detail
rd

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50
Agenda
Agenda
Morning
Session
(9:30

am

12:00

pm)

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