

LOUISIANA RECOVERY AUTHORITY

Gas and Electric Utility System Funding Allocation Approval

October 12, 2006

Overview: A resolution to request the Louisiana Recovery Authority Board to allocate \$200 million of Community Development Block Grant (CDBG) funds to Entergy New Orleans (ENO) to defray gas and electric utility system repair costs in an effort to mitigate rate increases that would otherwise be passed on to New Orleans gas and electric utility ratepayers and to authorize the Infrastructure Task Force Chair and the Executive Director to work with the Office of Community Development to draft a waiver request to be submitted to the United States Department of Housing and Urban Development and to develop an Action Plan Amendment in accordance with this allocation, publish such Action Plan Amendment for public comment, and, upon the Louisiana Recovery Authority Board's final approval, recommend such Action Plan Amendment to the Governor and the Louisiana Legislature for approval.

Whereas, Hurricane Katrina caused unprecedented damage to the electric and gas system infrastructure in the city of New Orleans;

Whereas, Entergy New Orleans lost electric service to 100% of its customers immediately following the landfall of Hurricane Katrina;

Whereas, ENO's electric system was severely damaged by salt water intrusion that flooded its power plants and substations;

Whereas, approximately 75% of electric transmission lines were out of service and more than 50% of substations were flooded;

Whereas, ENO's first priority after the storm was restoration of electricity to emergency departments, pumping stations and the distribution system backbone;

Whereas, ENO's gas distribution system was also severely damaged by salt water intrusion that caused cast iron and steel pipeline in the system to corrode;

Whereas, 60% of ENO's gas distribution system flooded, about 4 million gallons of salt water were pumped out of ENO's low pressure distribution system and more than 80% of gas meters and regulators were destroyed;

Whereas, ENO secured the gas systems shortly after the storm and inspection and dewatering processes followed that allowed ENO to begin restoring gas flow to customers;

Whereas, extensive flooding caused significant internal and external corrosion to ENO's gas system infrastructure and because of this corrosion, a substantial portion of the gas system must be rebuilt and replaced;

Whereas, due to the damage caused by the storm, in early 2006, ENO requested CDBG funds from the Louisiana Recovery Authority to cover electric and gas utility costs, gas system infrastructure rebuilding costs and unrecovered fixed costs through the end of 2007 that are expected due to the loss of customers;

Whereas, by the end of 2006, ENO will have incurred nearly \$200 million of the estimated \$640 million in total restoration and rebuilding costs related to repairs necessitated by Hurricane Katrina damage;

Whereas, these costs will be recovered from customers in the form of higher rates for electric and gas services through the normal regulatory process, if ENO does not receive CDBG assistance;

Whereas, in addition to requesting CDBG funds, ENO took other protective steps to alleviate the potential financial burden the storm would impose upon its customers such as executing a storm response emergency plan, obtaining a debtor-in-possession loan from Entergy Corporation, implementing cost mitigation measures, negotiating an agreement with bondholders to forego interest, obtaining emergency authorization to sell unneeded electric generating capacity to third parties, obtaining authorization to allow for grand gulf costs to be recovered through fuel, and filing a regulatory request to reset customer rates with the City Council of New Orleans;

Whereas, these post-storm protective actions by ENO allowed the company to provide essential gas and electricity services which allowed customers to return to the city of New Orleans, provided a cash advance to finance storm restoration costs, preserved cash needed to finance storm restoration activities, mitigated the potential rate effect of spreading fixed costs over a smaller number of customers, and ultimately provided protection to customers from the severity of future storms by establishing adequate dedicated storm reserves over time;

Whereas, providing CDBG funds to ENO, as requested, will protect ENO customers from immediate rate increases that will be required to pay for repairs necessitated by damages caused by Hurricane Katrina and will allow ENO to file a plan of reorganization with the Bankruptcy Court prior to the end of 2006;

Whereas, providing ENO with CDBG funds will help the city of New Orleans return to a reliable and affordable electric and gas utility system which is a critical component of the city's rebuilding and recovery process;

Whereas, a CDBG allocation to ENO will also allow the City Council of New Orleans, as the utility's regulatory body for New Orleans, time to determine the feasibility of securitization and municipalization of the utility system and review how these alternatives will impact utility rates in the future;

THEREFORE BE IT RESOLVED, that the Louisiana Recovery Authority Board does hereby recommend the allocation of \$200 million of Community Development Block Grant funds to Entergy New Orleans to defray gas and electric utility system repair costs in an effort to mitigate rate increases that would otherwise be passed on to New Orleans gas and electric utility

ratepayers and does hereby authorize the Infrastructure Task Force Chair and the Executive Director to work with the Office of Community Development to draft a waiver request to be submitted to the United States Department of Housing and Urban Development and to develop an Action Plan Amendment in accordance with this allocation, publish such Action Plan Amendment for public comment, and, upon the Louisiana Recovery Authority Board's final approval, recommend such Action Plan Amendment to the Governor and the Louisiana Legislature for approval.

THEREFORE BE IT FURTHER RESOLVED, that the Louisiana Recovery Authority Board does hereby require that funds allocated under the Action Plan Amendment comply with the United States Department of Housing and Urban Development's national objective to benefit a majority of low-to-moderate income individuals.

THEREFORE BE IT FURTHER RESOLVED, that the Louisiana Recovery Authority Board does hereby recognize the City Council of New Orleans as the regulatory body over gas and electric utility services in New Orleans and does hereby adopt and require Entergy New Orleans to comply with the following conditions for receipt of Community Development Block Grant funds as requested by the City Council of New Orleans outlined below:

1. CDBG funds may only be used to offset the cost of restoration, reconstruction and rebuilding of ENO's damaged electric and gas utility systems, and to offset such other unrecovered fixed costs as may be the responsibility of ratepayers.
2. CDBG funds should be used to mitigate and/or eliminate possible rate increases to New Orleans utility ratepayers.
3. No CDBG funds may be used to profit ENO's parent, Entergy Corporation.
4. ENO must agree that all restoration, reconstruction, and rebuilding costs claimed for CDBG funding must be certified as reasonable and necessary through an independent process approved by the Louisiana Recovery Authority.
5. ENO must not claim in any forum capital assets paid for with CDBG funds as additions to the rate base for ratemaking purposes or for the valuation of ENO's assets in connection with the city's perpetual option to purchase set forth in the applicable 1922 Ordinances, as amended.
6. Any CDBG funds awarded to ENO should be exempt from existing or future liens held by any of ENO's bondholders and, except to the extent necessary to reimburse audited expenditures for restoration, reconstruction, and rebuilding, the Entergy Corporation debtor-in-possession loan to ENO.

THEREFORE BE IT FURTHER RESOLVED, that the Louisiana Recovery Authority Board does recognize that ENO will face significant unmet gas system repair costs in the future; thus, the Louisiana Recovery Authority Board does hereby pledge to work with the Governor, the Louisiana Congressional Delegation, the City of New Orleans, and ENO to petition the President

of the United States and the United States Congress for additional federal funds to cover future gas system repair costs which are largely due to salt water intrusion that resulted from the failure of the federal government's levee system.