

LOUISIANA RECOVERY AUTHORITY

Ratepayer Mitigation Plan Action Plan Amendment No. 6 Approval

November 6, 2006

Overview: A resolution to request the Louisiana Recovery Authority Board to approve and recommend to the Governor and the Louisiana Legislature for approval the Ratepayer Mitigation Plan Action Plan Amendment No. 6 for Disaster Recovery Funds. Action Plan Amendment No. 6, allocates \$200 million of Community Development Block Grant (CDBG) funds to Entergy New Orleans (ENO) to defray gas and electric utility system repair costs to mitigate rate increases that would otherwise be passed on to New Orleans gas and electric utility ratepayers.

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

Whereas, ENO 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, 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, 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, ENO estimates that approximately 10 percent of the total amount of damage to the electric and gas infrastructure was caused by the storm and the remaining 90 percent can be attributed to subsequent flooding caused by the failure of the federal levee system that was to protect the city of New Orleans;

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 \$638 million in total restoration and rebuilding costs related to repairs necessitated by Hurricane Katrina damage;

Whereas, ENO expects to receive approximately \$250 million in insurance proceeds that will offset their total costs, leaving approximately \$388 million in unmet restoration and rebuilding costs;

Whereas, these unmet 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, the Ratepayer Mitigation Plan will protect ENO's business and residential customers from bearing the entire burden of the utility infrastructure restoration and rebuilding costs;

Whereas, the Ratepayer Mitigation Plan 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, the Ratepayer Mitigation Plan allows for reimbursement of three categories of eligible costs; electricity system, natural gas system, and other common costs;

Whereas, eligible costs shall not be reimbursed for more than 90 percent of the costs and total CDBG funding under the plan shall not exceed the lesser of 90 percent of eligible costs or \$200 million;

Whereas, Action Plan Amendment No. 6 for Disaster Recovery Funds enforces the conditions imposed upon ENO as requested by the City Council of New Orleans and adopted by the Louisiana Recovery Authority Board at its October 12, 2006, meeting which are 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.

Whereas, Action Plan Amendment No. 6 requires the City Council of New Orleans and its advisors to verify and validate costs submitted by ENO for incorporation into rates and requires the Council, after analyzing, auditing, and validating pertinent records, to provide notice to the Division of Administration, Office of Community Development (OCD) that certifies the total of uncompensated costs eligible for reimbursement under the Ratepayer Mitigation Plan;

Whereas, OCD will determine the amount of ratepayer mitigation to be reimbursed within the limitations imposed in the Ratepayer Mitigation Plan;

Whereas, OCD will monitor activities under the Ratepayer Mitigation Plan and will work to develop procedures for avoiding fraud, abuse, and/or mismanagement.

THEREFORE BE IT RESOLVED, that the Louisiana Recovery Authority Board does hereby approve the Ratepayer Mitigation Plan Action Plan Amendment No. 6 for Disaster Recovery Funds.

THEREFORE BE IT FURTHER RESOLVED, that the Louisiana Recovery Authority Board does hereby recommend the Ratepayer Mitigation Plan Action Plan Amendment No. 6 for Disaster Recovery Funds to the Governor and the Louisiana Legislature for approval.