BEFORE THE

MISSOURI PUBLIC SERVICE COMMISSION

IN THE MATTER OF THE JOINT APPLICATION OF ENTERGY ARKANSAS, INC., MID SOUTH TRANSCO LLC, TRANSMISSION COMPANY ARKANSAS, LLC AND ITC MIDSOUTH LLC FOR APPROVAL OF TRANSFER OF ASSETS AND CERTIFICATE OF CONVENIENCE AND NECESSITY, AND MERGER AND, IN CONNECTION THEREWITH, CERTAIN OTHER RELATED TRANSACTIONS	))))))))))))))	**File No. EO-2013-0396**

SURREBUTTAL TESTIMONY OF

CAMERON M. BREADY

ON BEHALF OF

ITC MIDSOUTH LLC

JUNE 2013

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EXHIBIT LIST

I. INTRODUCTION

Q1. PLEASE STATE YOUR NAME.

A. My name is Cameron M. Bready.

Q2. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY TO THE COMMISSION?

A. Yes. I submitted Direct Testimony in this proceeding on April 25, 2013.

II. PURPOSE OF TESTIMONY

Q3. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

A. I will respond to assertions and concerns in the Rebuttal Testimonies of witnesses for The Empire District Electric Company ("Empire") and Kansas City Power & Light and KCP&L Greater Missouri Operations Company (collectively, "KCPL"). My surrebuttal testimony will: 1) demonstrate and reiterate that the proposed transaction between ITC Holdings Corp. and Entergy Corporation ("Entergy") described in the Joint Application, which provides the benefits of the independent transmission company business model, is not detrimental to the public interest in Missouri; 2) explain the need for the capital structure and the return on equity proposed for the ITC Midsouth Operating Companies[1]

[1] My rebuttal testimony uses the term "ITC Midsouth Operating Companies" to refer collectively to ITC Arkansas LLC, ITC Louisiana LLC, ITC Mississippi LLC and ITC Texas LLC, the new ITC subsidiaries which will own and operate the former transmission assets of the Entergy Operating Companies. My rebuttal testimony uses the term "Entergy Operating Companies" or "EOCs" to refer collectively to Entergy Arkansas, Inc. ("EAI"), Energy Louisiana, LLC, Entergy Gulf States Louisiana, L.L.C., Entergy Mississippi, Inc., Entergy New Orleans, Inc., and Entergy Texas, Inc.

including ITC Arkansas, LLC ("ITC Arkansas")[2]; and 3) demonstrate that the effects of the transaction on wholesale rates as a general matter will be modest. I will also discuss a joint ITC Arkansas/Entergy Arkansas, Inc. ("EAI") rate mitigation proposal and address Empire witness Mr. Warren's Schedule BKW-2. My surrebuttal testimony therefore supports a determination by the Commission that the transaction is not detrimental to the public interest.

III. BENEFITS OF THE TRANSACTION

Q4. IS THE TRANSACTION DETRIMENTAL TO THE PUBLIC INTEREST IN MISSOURI?

A. No, it is not. The transaction provides substantial benefits and is not detrimental to the public interest. This is an unusual transaction in that it is driven primarily by qualitative benefits. The nature of the benefits stemming from the transaction reflect the fact that the ultimate outcome will be far more than simply the transfer of ownership of transmission facilities, but rather a significant strategic realignment that will better position the region to meet its energy challenges for the future. Analyzing this transaction only from the perspective of quantitative benefits versus quantifiable costs really misses the point of the transaction, to the detriment of customers.

I believe that the assessment of the public interest is far more than a simple endeavor that can be whittled down to quantifiable costs and benefits. The qualitative benefits of the transaction, which are set forth in my Direct Testimony and in the testimony of other ITC

[2] EAI will separate its electric transmission business into Transmission Company Arkansas LLC. Post-closing of the separation and merger, ITC will change the name of Transmission Company Arkansas LLC to ITC Arkansas LLC. For consistency I will refer to Transmission Company Arkansas LLC as "ITC Arkansas" in my testimony.

witnesses, provide real benefits for Missouri customers that will more than offset the incremental costs of the transaction. These benefits cannot be ignored. The Commission can and should find this transaction not detrimental to the public interest in Missouri.

Q5. CAN YOU DISCUSS SOME OF THE BENEFITS WHICH THIS TRANSACTION WILL PROVIDE FOR CUSTOMERS IN MISSOURI?

A. Yes. To begin with, independence is an immediate, substantial and concrete benefit. The benefits of the ITC independent transmission model may be difficult to quantify, but, as evidenced by the Direct Testimony of Joseph L. Welch, independence benefits are concrete benefits nevertheless.

Improved reliability through a properly planned transmission system is another substantial concrete benefit that ITC has delivered to its other transmission systems and will deliver in Missouri. ITC witness Jon E. Jipping discusses the value of reliability improvements on the transmission system. His testimony demonstrates how ITC's singular focus on transmission has enabled it to achieve top performance in terms of transmission availability and the tangible economic benefit to customers of realizing this high level of service quality.

Other quantitative and qualitative concrete benefits are described by other ITC witnesses supporting the transaction application. My Direct Testimony describes the immediate quantified debt cost savings that will be realized as a result of the transaction. ITC witness Thomas Vitez describes the benefits of an independent, regional approach to transmission planning. My Direct Testimony further illustrates how this approach has resulted in substantial investment in needed transmission.

Regarding transmission service, while the transmission assets may be the same initially, future stewardship, service and development of these assets will be significantly enhanced through ITC's ownership. This will lead to not only heightened reliability, which is an economic benefit to customers, but also to a more economically efficient system that allows customers to benefit from a lower delivered cost of energy. These are concrete benefits of the independent transmission model that will flow from the transaction.

More specifically, ITC offers concentrated expertise and focus in the transmission function, allowing for enhanced performance at reduced costs, as explained in Mr. Jipping's testimony. As Mr. Jipping and ITC witness Thomas H. Wrenbeck explain, ITC will have dedicated personnel to serve customer and other stakeholder needs surrounding new and existing transmission lines.

In conclusion, the substantial benefits, both quantitative and qualitative, resulting from ITC's broader, independent planning model, track record of significant investment in needed transmission, and singular focus on transmission producing top performance in transmission availability and reliability, demonstrate that this transaction is not detrimental to the public interest.

Q6. SOME INTERVENOR WITNESSES (Warren p. 12; Carlson p. 5) CONCLUDE THAT THE TRANSACTION DOES NOT YIELD SIGNIFICANT BENEFITS INCREMENTAL TO EAI MEMBERSHIP IN MISO.[3] PLEASE RESPOND.

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[3] Midcontinent Independent System Operator, Inc.

A. ITC's ownership of the Missouri assets provides benefits additional to those resulting from EAI's integration of those assets into MISO. Although MISO administers a planning process, it is still the responsibility of the transmission owner to plan and promote investments in its systems that benefit customers and ensure the ongoing reliability of the grid. More importantly, MISO does not build or finance transmission. It does not own or maintain any transmission assets. Regardless of whether a company is participating in an RTO or not, the burden to invest and properly maintain transmission systems to ensure high reliability of service and economic efficiency rests with the transmission owner. ITC's ownership of the Missouri assets will deliver substantial additional benefits.

IV. CAPITAL STRUCTURE

Q7. MR. LOCKE NOTES (p. 5) THAT ITC ARKANSAS WILL BE MORE CONSERVATIVELY CAPITALIZED THAN EAI. WHY IS THE 60% EQUITY / 40% DEBT CAPITAL STRUCTURE APPROPRIATE FOR ITC ARKANSAS?

A. The 60% equity / 40% debt capital structure supports the creation of high credit quality operating companies with steady cash flows, strong liquidity, and access to the cost-effective capital needed to make transmission investments. The request for approval of the use of an actual capital structure targeting 60% equity and 40% debt for ITC Arkansas is consistent with FERC's approval of similar capital structures for ITC's existing operating subsidiaries, as well as for other companies.[4] This capital structure has supported the ability of ITC's existing operating subsidiaries to access the capital markets to support needed transmission investment even in times of extreme market volatility.

I believe that a target capital structure of 60% equity and 40% debt results in a financial structure that properly balances the risk faced by ITC's shareholders with the impact on transmission rates for ITC's customers. ITC needs to utilize a capital structure that presents acceptable risk to its shareholders while protecting the interests of transmission customers taking service using the transmission facilities. A formula rate that utilizes solely debt financing would put undue risk on ITC shareholders. Conversely, a formula rate that utilizes only equity financing would unfairly burden transmission customers by inflating the overall weighted average cost of capital.

In striking the appropriate balance, it is important to note that ITC Arkansas will be dedicated exclusively to constructing, owning, operating, and maintaining transmission infrastructure. As a result, ITC Arkansas and the other ITC Midsouth Operating Companies will be unable to diversify their business outside of transmission, and thus will have no other revenue generating activities. For this reason, an actual capital structure targeting 40% debt is appropriate because the ITC Midsouth Operating

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[4] FERC has approved a 60% equity and 40% capital structure for the AWC Companies (Atlantic Grid Operations A LLC, et al., 135 FERC ¶ 61,144 (2011)), for Prairie Wind Transmission, LLC (Tallgrass Transmission, LLC, et al., 132 FERC ¶ 61,114 (2010)), and for Startrans IO, L.L.C., 122 FERC ¶ 61,306 (2008). In addition, within MISO, based on the Attachment O tariffs on file with MISO as of June 2012 (https://www.midwestiso.org/Library/Pages/ManagedFileSet.aspx?SetId=259), Northern Indiana Public Service Company and Ameren Illinois Company use capital structures comprised of 60% equity and 58% equity, respectively.

Companies will be less able to withstand disruptions in their revenue streams compared to companies with more varied revenue sources.

From a customer perspective, the 60% equity / 40% debt capital structure also leads to lower fixed interest payments. A debt level of 40% in the capital structures of ITC Arkansas will preserve investor confidence and allow for more predictable and cost-effective access to capital to support significant and sustained levels of investment requirements.

The proposed capital structure, coupled with the MISO regional base ROE of 12.38% (which is the same ROE EAI has applied for at FERC as a transmission owner in MISO) and a forward-looking formula rate, will mitigate the risks faced by ITC Arkansas and the other ITC Midsouth Operating Companies, will provide the companies with steady and predictable cash flows, and will support their strong credit quality, which also will protect the interests of transmission customers and ensure that the investments needed to improve the performance of the transmission system and to allow for it to operate in a more economically efficient manner are made timely and without interruption.

Q8. IS THE USE OF THE 12.38% MISO-WIDE RETURN ON EQUITY ("ROE") BY NEW MISO MEMBERS, BE IT EAI OR ITC ARKANSAS, APPROPRIATE?

A. Yes. FERC consistently has held that new transmission-owning members of MISO are entitled to receive the current base ROE that FERC has approved for all MISO transmission owners, which is 12.38%. ITC Arkansas will be a transmission-owning member of MISO. Therefore, it is important that it be able to earn an ROE comparable to that of other MISO companies to compete for external capital effectively to minimize funding costs and to generate sufficient cash flow for the capital investment needs in the ITC Midsouth region, which are expected to be sustained and significant.

Q9. MR. LOCKE STATES (p. 5) THAT ITC ARKANSAS' USE OF THE 12.38% MISO-WIDE ROE WILL CONTRIBUTE TO AN INCREASE IN WHOLESALE TRANSMISSION RATES. DO YOU AGREE?

A. No I do not. EAI has requested authorization from FERC to use the same 12.38% ROE in MISO. Since EAI would use the same ROE as ITC Arkansas in MISO, ITC Arkansas' use of the 12.38% ROE will have no incremental impact on wholesale transmission rates.

V. <u>EFFECT ON WHOLESALE TRANSMISSION RATES</u>

Q10. HAVE YOU ANALYZED THE RATE EFFECTS OF THE TRANSACTION ON WHOLESALE CUSTOMERS IN MISSOURI?

A. No, we have not analyzed the specific rate effects of the transaction on customers in Missouri, but we have analyzed the impacts on the ITC Arkansas pricing zone. Any changes to the wholesale transmission rates paid in the ITC Arkansas pricing zone would ultimately flow through to all wholesale customers in that zone which includes the Missouri wholesale customers.

Q11. HAVE YOU ANALYZED THE EFFECT OF THE TRANSACTION ON WHOLESALE TRANSMISSION RATES GENERALLY?

A. Yes. ITC and Entergy modeled the estimated effects on wholesale transmission rates resulting from the transaction. This modeling focused on the change in capital structure and the benefits of ITC's improved credit quality, which yields lower debt financing costs. Collectively, I refer to these as the "changes in weighted average cost of capital." ITC and Entergy compared the expected weighted average cost of capital for the

Arkansas pricing zone (which includes the limited Missouri transmission facilities at issue) in 2014 under EAI ownership in MISO with the anticipated weighted average cost of capital for the Arkansas pricing zone in 2014 under ITC ownership.[5] This difference in the weighted average cost of capital was then applied to the projected annual average rate base balance for EAI to derive the change in total transmission revenue requirement. Lastly, the change in total transmission revenue requirement was divided by the projected 12 coincident peak load forecast for the Arkansas pricing zone in 2014, as provided to me by Entergy, to determine the expected wholesale rate impact for the Arkansas pricing zone from the Transaction.

As shown on my Exhibit CMB-9, wholesale transmission rates are estimated to increase approximately $0.20/KWM in the Arkansas pricing zone in 2014. This reflects an 8.1% increase over projected wholesale transmission rates in 2014 for the Arkansas pricing zone under EAI ownership in MISO.

Q12. IN RESPONSE TO MR. LOCKE'S QUESTION REGARDING OTHER CHANGES THAT WOULD OFFSET THE RATE EFFECTS IN THE FUTURE, CAN YOU ELABORATE ON THE DEBT SAVINGS ASSUMED IN THE OUTER YEARS?

A. Yes. I analyzed the incremental interest expense savings that we anticipate would be realized over time as ITC Arkansas issues incremental debt to fund future capital investments. These interest savings would be over and above the initial refinancing

[5] Although the Transaction is expected to close in 2013, the analysis was conducted for 2014 to avoid the complexity of modeling partial years.

savings and were quantified by multiplying all projected new debt issuances over a five-year period by the estimated difference in debt financing rates between ITC's existing operating subsidiaries that are members of MISO, as a proxy for ITC Arkansas, and the Entergy Operating Companies. This methodology yielded a debt rate differential of 45 to 65 basis points (or 0.45% to 0.65%)[6], depending on the Entergy Operating Company. For EAI, the modeled debt rate differential at the time the analysis was prepared in 2012 was approximately 50 basis points (or 0.50%).[7]

Q13. WHAT IS THE EFFECT GENERALLY ON WHOLESALE RATES OF THE METHODOLOGICAL CHANGE THAT COMES FROM MOVING FROM THE CURRENT ENTERGY OPEN ACCESS TRANSMISSION TARIFF TO THE MISO TARIFF?

A. There will be a change in how wholesale rates are determined due to MISO's 12 coincident peaks demand methodology. The current Entergy OATT utilizes a load denominator that is based on a single peak load multiplied by 12 months. Under the MISO Tariff, the load denominator will change to reflect a 12 coincident peak load. This change in methodology affects the units of measuring rates and the units of measuring consumption, but the amount paid is the same. Thus, while the change in the load denominator affects the wholesale transmission rate, it does *not* affect customers' aggregate bills, since the higher rate would be applied to lower billing demand.

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[6] Source: JP Morgan. Indicative spreads as of February 29, 2012. Indicative rates are based on market conditions during the stated period and are subject to change.

[7] Source: JP Morgan. Indicative spreads as of February 29, 2012. Indicative rates are based on market conditions during the stated period and are subject to change.

VI. PROPOSED RATE MITIGATION

Q14. HAVE ITC AND EAI PROPOSED A RATE MITIGATION PLAN IF THE TRANSACTION IS APPROVED?

A. Yes. In my rebuttal testimony and the rebuttal testimony of EAI witness Hugh McDonald filed on May 17, 2013 in ASPC Docket 12-069-U, ITC and EAI proposed a joint rate impact mitigation plan, to address the concern that the reliability increase, congestion reduction, increased access to competitive generation, and other benefits of the transaction occur later than the rate impact of the transaction. The proposed rate mitigation plan is as follows:

EAI AND ITC ARKANSAS MUTUAL RATE MITIGATION PROPOSAL

Transition Period Commitments:

a. **Rates:** EAI and ITC Arkansas commit to implement a rate impact mitigation plan for the first 5 years following closing of the transaction ("Transition Period"). The plan would mitigate the rate impact on customers from certain effects of the transaction. The rate mitigation plan would have a total impact over the Transition Period of $85 million (nominal). The $85 million will be comprised of bill credits[8] over the 5 year period following closing of the transaction.

b. **Rate Construct Commitments:** During the Transition Period, the rate impact mitigation plan is conditioned on the parties to this proceeding and the Commission not challenging the formula rate and elements of the rate construct (including the forward looking application of the formula rate, authorized rate of return on equity, target capital structure, and annual true-up mechanism) that are approved for ITC Arkansas by the FERC in connection with the transaction.

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[8] Note: If ITC Arkansas and EAI implement this mitigation plan by crediting equal portions of the funding (as contemplated by the Merger Agreement), the portion credited by ITC Arkansas would be credited to all of its wholesale customers, including those in Missouri, not just EAI.

Q15. WOULD ANY CUSTOMERS IN MISSOURI BENEFIT FROM THIS RATE MITIGATION PROPOSAL?

A. Yes. Wholesale customers on the future ITC Arkansas system that pay network transmission rates would benefit from the rate mitigation proposal.

VII. <u>SCHEDULE BKW-2</u>

Q16. ARE YOU FAMILIAR WITH MR. WARREN'S SCHEDULE BKW-2?

A. Yes I am. Empire witness Mr. Warren states in his rebuttal testimony that he agrees with a recent filing by the General Staff of the Arkansas Public Service Commission ("APSC") in Docket 12-069-U suggesting that the transaction that is the subject of this proceeding is not in the public interest. Mr. Warren attached the APSC General Staff filing as Schedule BKW-2 to his rebuttal testimony. While ITC believes that the Commission should not consider Mr. Warren's Schedule BKW-2 and that it should be excluded from the record as unsworn hearsay evidence and as irrelevant to the standards and circumstances applicable to Missouri, my testimony and the testimonies of other ITC and EAI witnesses in the Arkansas proceeding thoroughly rebutted the APSC Staff's testimony and we will offer that rebuttal here, but only if the Commission does not exclude Mr. Warren's Schedule BKW-2. Accordingly, I have provided the relevant portions of my Arkansas testimony addressing the portions of Mr. Warren's Schedule BKW-2 that I rebutted in Arkansas.

Q17. WHAT PORTIONS OF YOUR ARKANSAS TESTIMONY ARE YOU PROVIDING?

A. Excerpts of my responses to Questions 5 through 8, 13 through 15, 18 through 22 and 24 in my Arkansas rebuttal testimony are attached hereto as Exhibit CMB-10 and incorporated herein by this reference. This is a true and correct copy of those portions of my rebuttal testimony in that proceeding.

Q18. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

A. Yes.