

# ENTERGY CORP /DE/

## FORM 425

(Filing of certain prospectuses and communications in connection with business combination transactions)

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# Update on Entergy Transmission Spin/Merger with ITC

**June 18 – 20, 2012**

*Presented by Entergy Texas*





# 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 Report on Form 10-Q for the quarter ended March 31, 2012, and other filings made by Entergy with the Securities and Exchange Commission; (ii) the following transactional factors (in addition to others described elsewhere in this presentation 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, 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.



## Additional Information and Where to Find It

ITC and Transco will file registration statements with the Securities and Exchange Commission (“SEC”) registering shares of ITC common stock and Transco common units to be issued to Entergy shareholders in connection with the proposed transactions. ITC will also file a proxy statement with the SEC that will be sent to the shareholders of ITC. Entergy shareholders are urged to read the prospectus and/or information statement that will be included in the registration statements 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 and any other relevant documents because they contain important information about Transco and the proposed transactions. The proxy statement, prospectus and/or information statement, 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](http://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.

***ITC Spin-Merge Transaction Overview***

**Benefits of ETR – ITC Spin-Merge Transaction**

**Financial Flexibility**

**Storm Response**

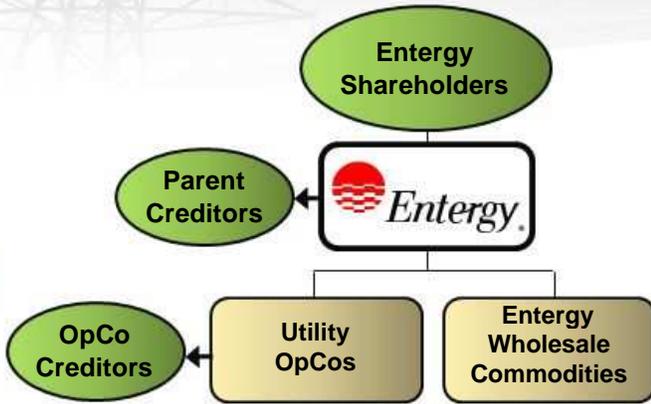
**Rate Effects of Spin-Merge Transaction**

**Approvals Required**

# The Merger Transaction – End State

*Illustrative*

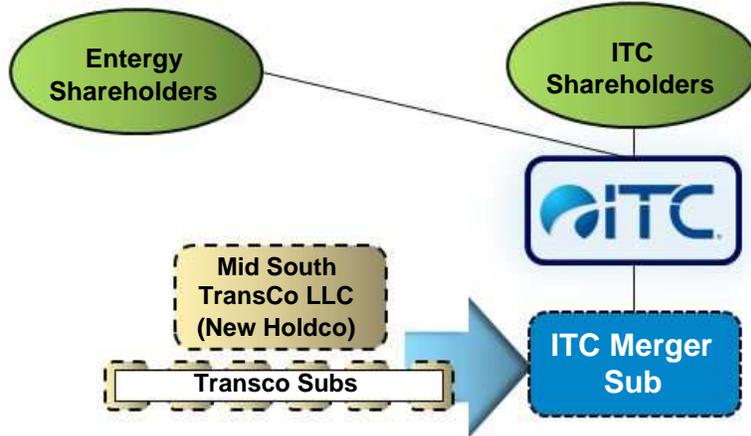
## Energy Post-Merge



- Entergy Utility Operating Companies comprised of:
  - Generation
  - Distribution
- ~\$1.775B of debt will be issued by Entergy in connection with the internal separation of the transmission business, the proceeds from which will be used for debt reduction
- Each Entergy Utility Operating Company's capital structure after the spin-off and merger anticipated to be consistent with capitalization prior to the transaction

## ITC Post-Merge

- Prior to the merger, ITC expects to effectuate a \$700M recapitalization currently anticipated to be a special dividend
- Entergy shareholders to merge spun transmission business with ITC merger subsidiary
- New Holdco to survive
- Entergy shareholders to receive 50.1% of ITC stock



**ITC Spin-Merge Transaction Overview**

***Benefits of ETR – ITC Spin-Merge Transaction***

**Financial Flexibility**

**Storm Response**

**Rate Effects of Spin-Merge Transaction**

**Approvals Required**

# Overview of Benefits to Customers Through Spin-Merge

## Independent and Transparent ITC Model

- Provides singular focus on transmission system performance, planning and operations
- Aligns with national policy objectives to facilitate investment in local, regional and inter-regional transmission, advance open access initiatives and promote access to competitive energy markets

## Operational Excellence

- Combines best operating practices of both Entergy and ITC
- Brings ITC's experience and track record of safe and reliable operations to ensure continued strengthening of overall grid performance
- Leverages Entergy employees' knowledge and experience and fully utilizes Entergy's world-class storm restoration process

## Financial Flexibility and Growth

- Increases flexibility of Entergy's investment alternatives
- Protects credit quality of Entergy's Operating Companies
- Supports efficient infrastructure investment
- Improves access to capital for transmission business

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**Benefits of ETR – ITC Spin-Merge Transaction**

***Financial Flexibility***

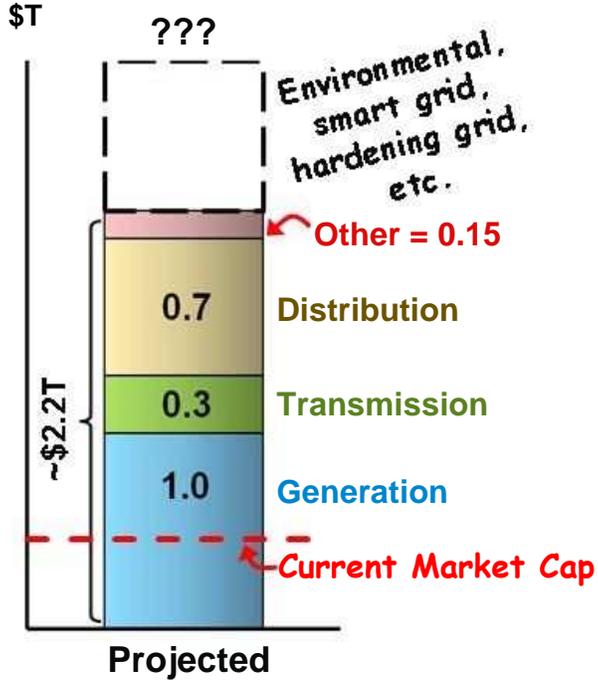
**Storm Response**

**Rate Effects of Spin-Merge Transaction**

**Approvals Required**

# The Utility Industry Is Facing Huge Need for Capital – Estimated at \$2.2T Over the Next 20 Years

Projected Industry Capital Investments Over Next 20 Years



Source: Internal analysis; Bloomberg

## Issues Facing Utility Industry Over Next 20 Years

### Growth / Investment



# Capital Trends – Rating Agency Considerations

## Standard and Poor's Outlook – "Utility Credit Ratings Critical to Raising Capital – Money Needed to Build Wires and Plants

### Challenges facing the electric utilities industry

- "the real tests lie ahead, when federal environmental mandates and consequent spending requirements are more certain, when state renewable portfolio standards begin to command heightened expenditures in earnest, and when an aging infrastructure reveals its vulnerability"
- "For an industry that is among the most capital-intensive in the United States, failure to maintain investment grade could have significant upward cost implications"

### Addressing challenges

- "a sustained, collaborative and open working relationship among the principal vested interests will be critical to the execution of corporate, environmental and public policy initiatives"
- "we view most favorably those commissions that establish rates that reasonably reflect the costs incurred by a utility, including a return on equity, and where timely adjustments to these rates are made to recognize changes in costs"
- "public service commissions continue to be reasonably supportive despite frequently lower authorized returns."
- "a preference for expense deferrals may develop, and a proclivity for less competitive authorized returns will almost certainly prevail. Such a turn of events would likely result in a shift of our stable outlook on overall U.S. electric utility credit quality to negative."

Note: Comments sourced from Energy Biz article written by Richard W. Cortright, Jr., managing director in Standard & Poor's U.S. Utilities and Infrastructure Ratings group dated Feb 07, 2012

# Industry Is Responding to Capital Investment Challenges with Different Approaches

## Consolidate

Create larger footprint; upsize balance sheet

- Duke / Progress
  - Northeast Utilities / NSTAR
  - PPL / LG&E
  - First Energy / Allegheny
  - Exelon / Constellation
- 

## Build Regulatory Flexibility / Certainty

Achieve greater certainty in regulations

- e.g., Formula rate plans, future test years, specific rider recovery, CWIP in rates, etc.
- 

## Change Business Model

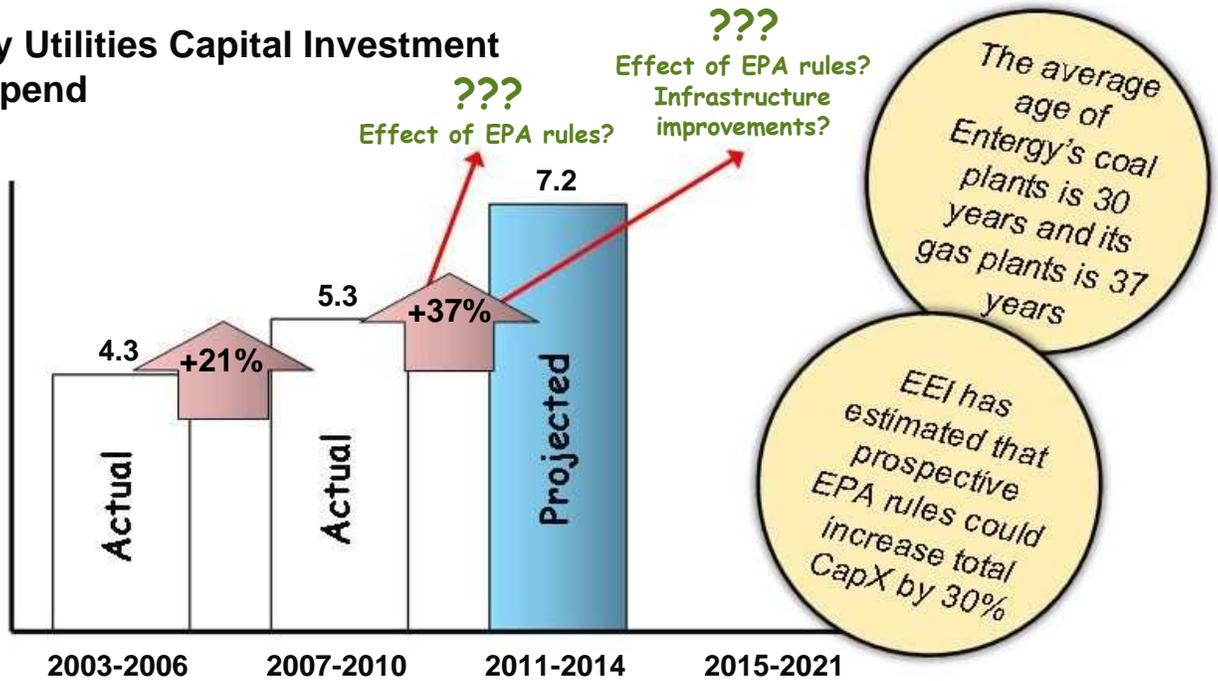
Align business model with capital needs

- e.g., AEP Transco
- e.g., FPL Rate Hike Request

# Capital Trends – Rising Capital for Entergy Overall

Capital spending could significantly increase over the next 10 years due to the potential for new environmental regulations and improvement of infrastructure

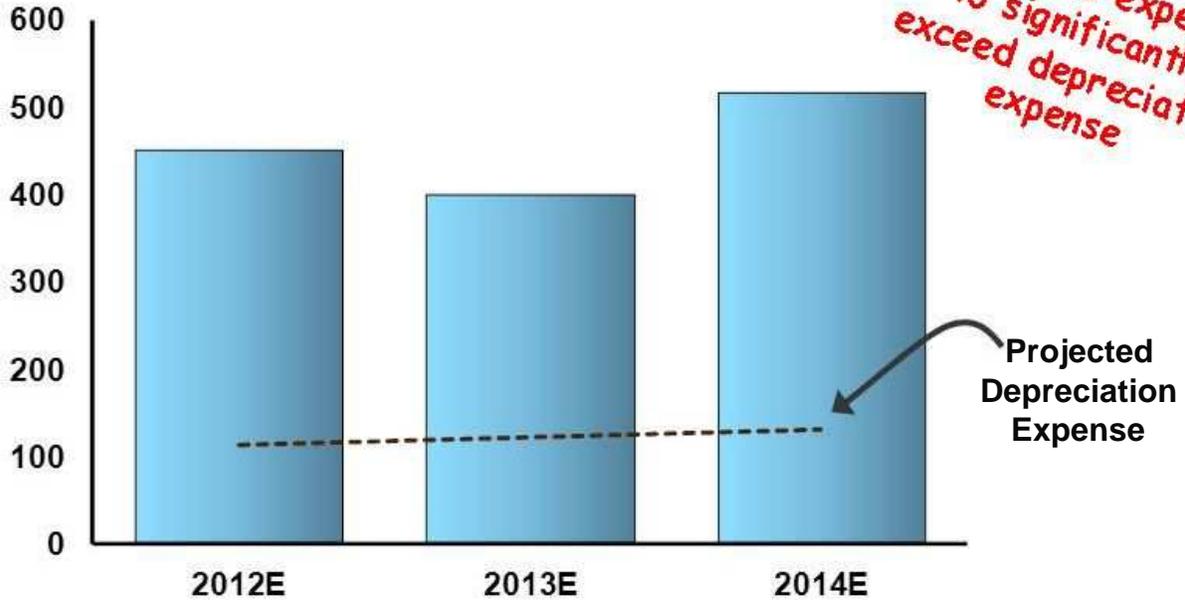
Entergy Utilities Capital Investment  
Total Spend  
\$B



Note: Excludes storm CapX for historical data; ETR Utilities includes EAI, ELL, EGSL, EMI, ETI, ENOI, SERI, ESI, EOI, SFI

# Capital Trends – Rising Capital for Entergy’s Transmission Business

Entergy Projected Transmission Capital Investment  
2012E-2014E  
\$M



*Capital investment  
in the transmission  
function is expected  
to significantly  
exceed depreciation  
expense*

## For ETR Utilities, Spend on Major Storms Amounted to ~\$3.2B Over 2005-2010

Event	Year	Spend (\$M) <sup>1</sup>	
Hurricane Katrina	2005	1,117	<p>In the past, ETR utilities have had to effectively respond to major storms which have required unplanned capital expenditures ~\$3.2 billion over 2005-2010</p>
Hurricane Rita	2005	645	
Hurricane Gustav	2008	680	
Hurricane Ike	2008	626	
Ice Storm EAI 2009	2009	119	
Ice Storm EAI Jan 2010	2010	12	

**Strong balance sheet and credit ratings critical for quickly mobilizing capital and resources to respond to emergencies**

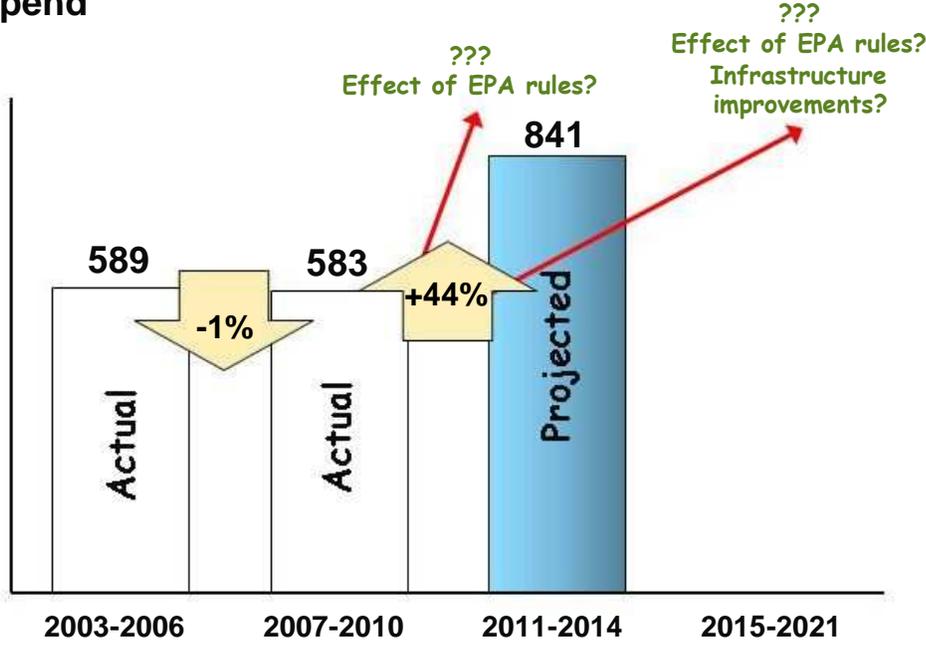
1. Includes capital and O&M spend

Note: 2011 CapX estimated to be \$2.11B. 2011 capital spend related to major storms was \$112M

# Capital Trends – Rising Capital for ETI

Capital spending could significantly increase over the next 10 years due to the potential for new environmental regulations and Entergy's infrastructure

ETI Capital Investment  
Total Spend  
\$M



Note: Excludes storm CapX for historical data

**ITC Spin-Merge Transaction Overview**

**Benefits of ETR – ITC Spin-Merge Transaction**

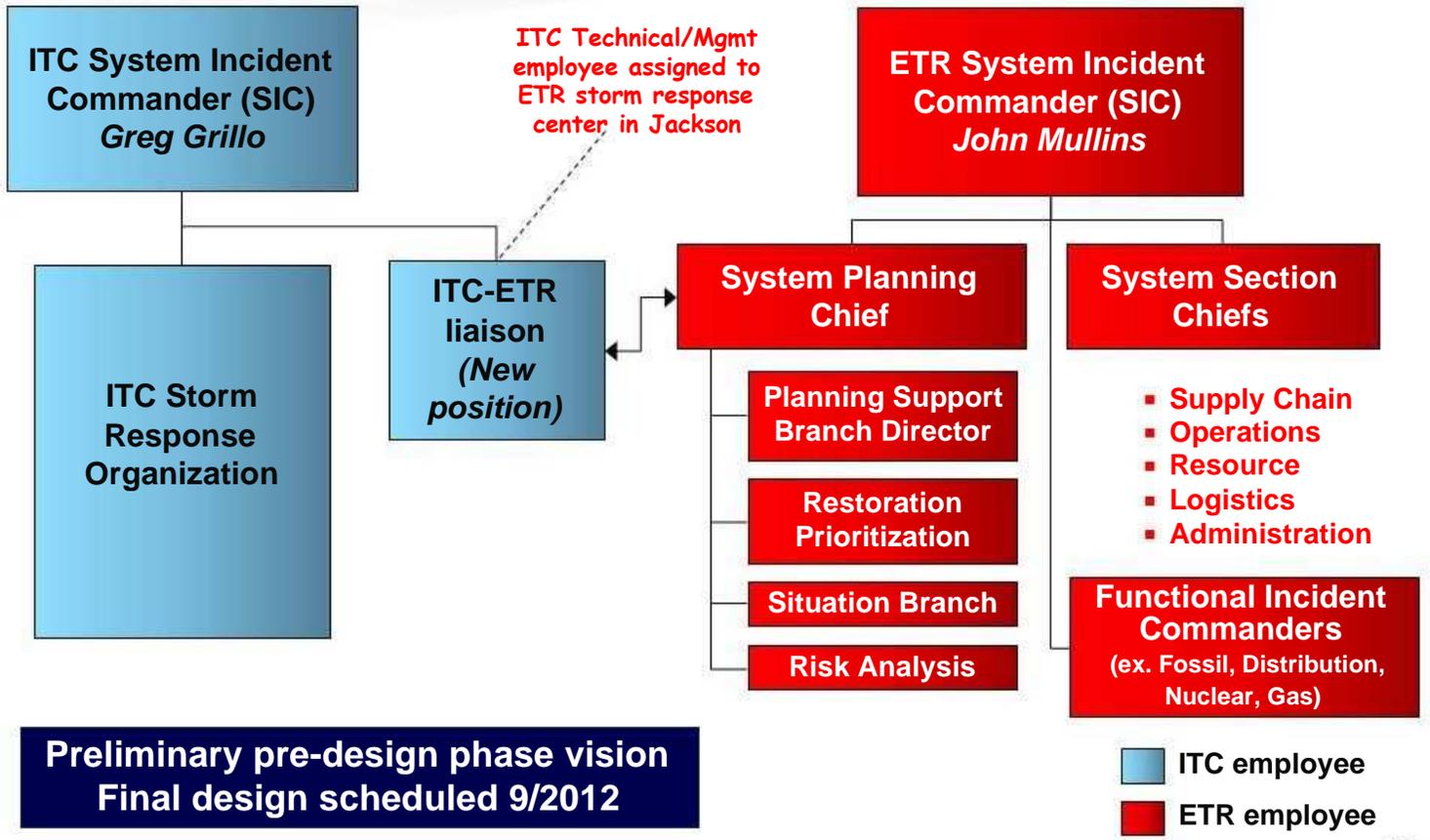
**Financial Flexibility**

***Storm Response***

**Rate Effects of Spin-Merge Transaction**

**Approvals Required**

# Storm Response Organization Will Be Modified to Ensure Close Coordination and Interaction Between Entergy and ITC



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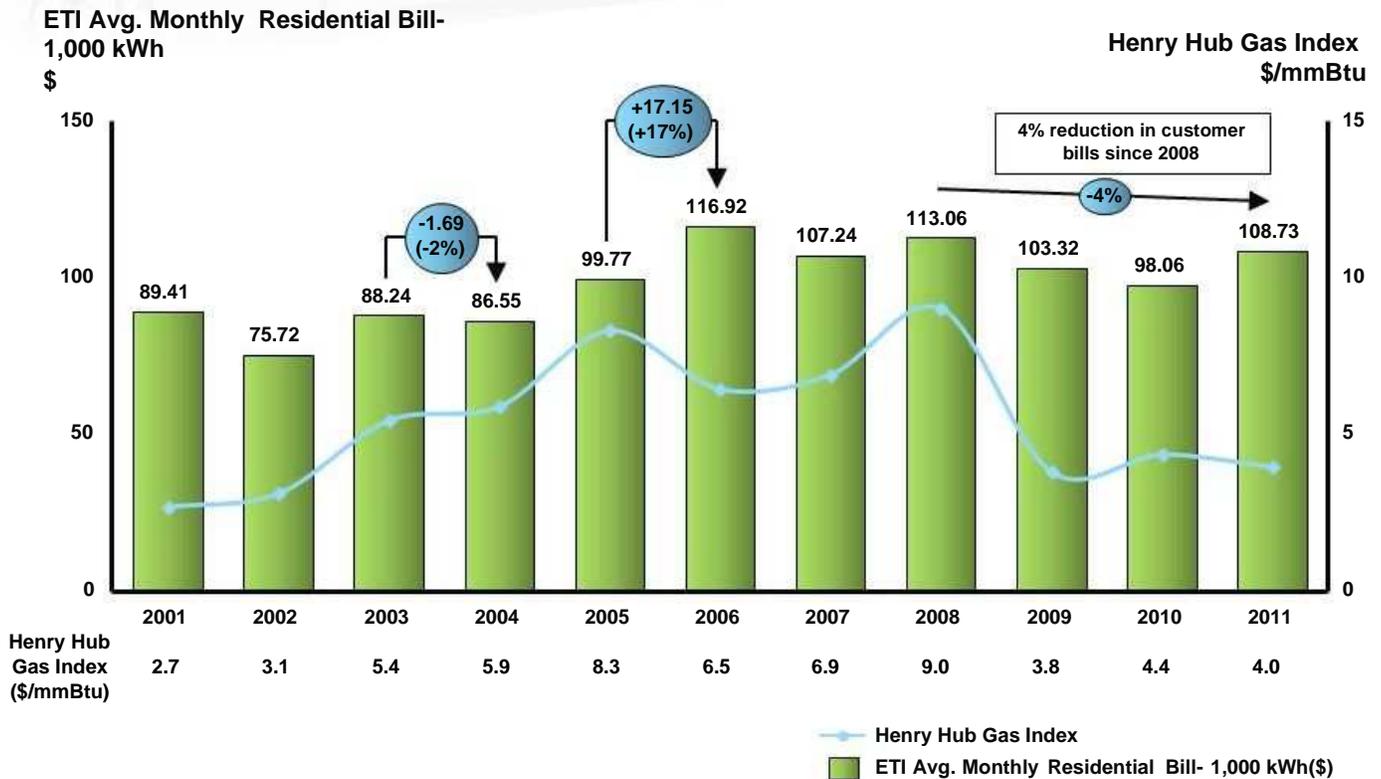
**Storm Response**

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# Significant Variability in Average Residential Bills – Yearly Variation Between \$2 and \$17 Over 2001-2011

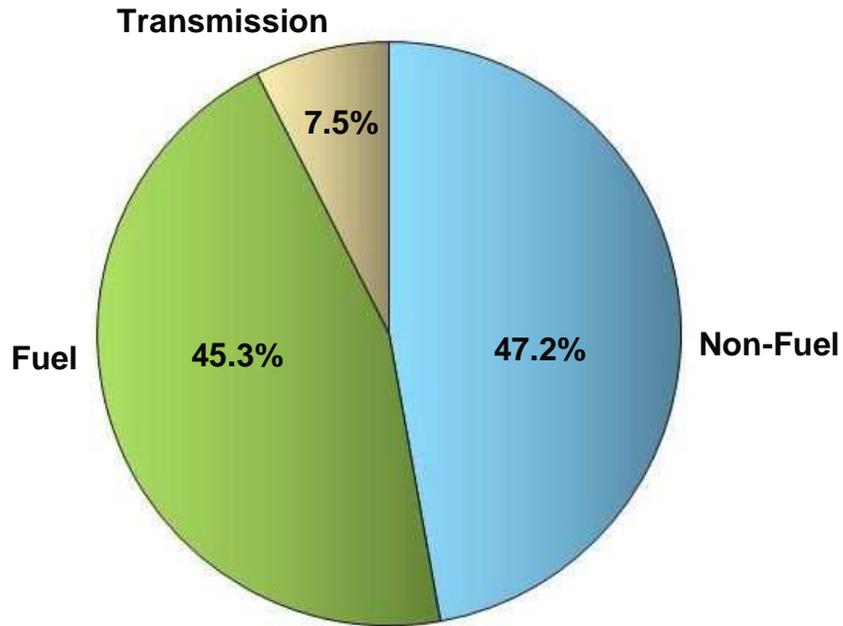
*Illustrative*



Note: Residential bills are the average of the Typical Monthly Bills in that year for a residential customer using 1,000 kWh, excluding taxes  
 Source: Entergy Regulatory Services, Typical Bill Report

# Transmission Constitutes ~7.5% of Typical ETI Customer Bill

## Typical ETI Customer Bill



# Rate Impacts Split into Rate Construct, Rate Timing and Other Effects for Retail Customers

## Rate Construct Effects

- Transition from current retail rate construct to FERC-regulated rate construct expected for ITC
- Analysis assumes MISO base ROE for Entergy transmission business (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 Timing Effects

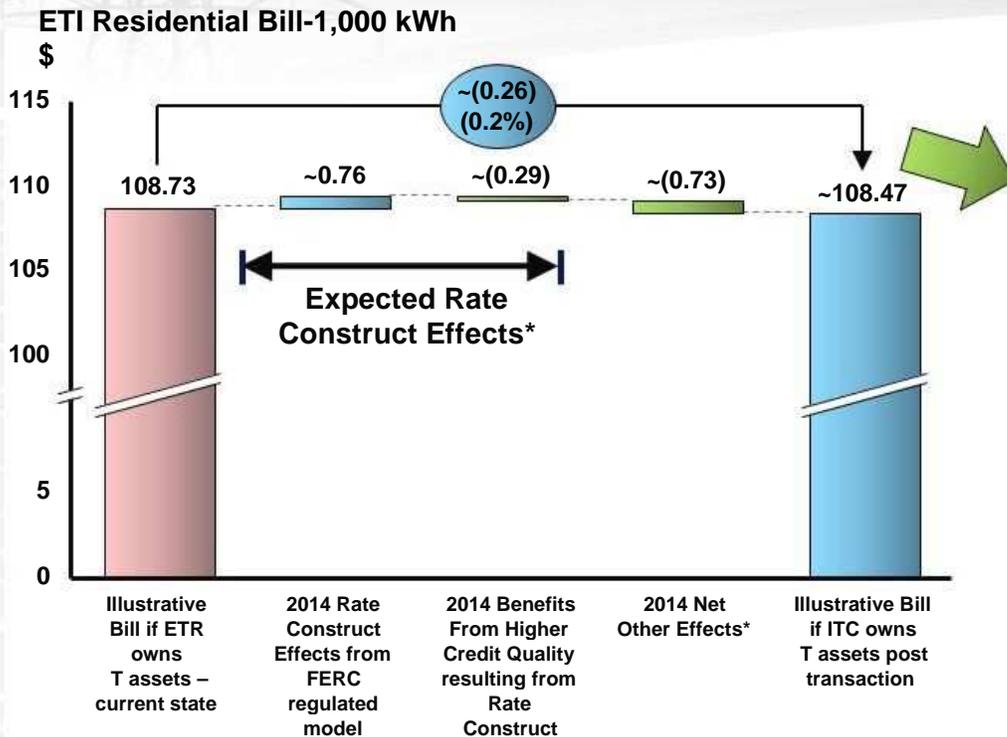
- **Forward Test Year:** Eliminates regulatory lag in recovery of capital investments
  - One time impact of conversion to forward test year
  - Reflects amounts that would have been collected in future years

## Other Effects

- MSS-2 construct eliminated post transaction
- Current estimation reflects effect of paying load ratio share of Transmission cost factoring in zonal investment and retail share of Transmission investments

# ETI Typical Residential Customer Bill Not Expected to Increase Post Spin-Merge Due to Rate Construct Effects

**Illustrative**



Over the long term, customer bill effects expected to be mitigated by...

- **Enhanced Financial Flexibility**
- **Operational Excellence**
  - Reliability, System Performance, Scale efficiencies etc.
- **Independent and transparent ITC model, which supports robust markets and competition**

**Note:** Contents exclude estimated one-time rate timing effect of \$0.37 in 2014 due to conversion to forward test year – reflects amounts that would have been collected in future years

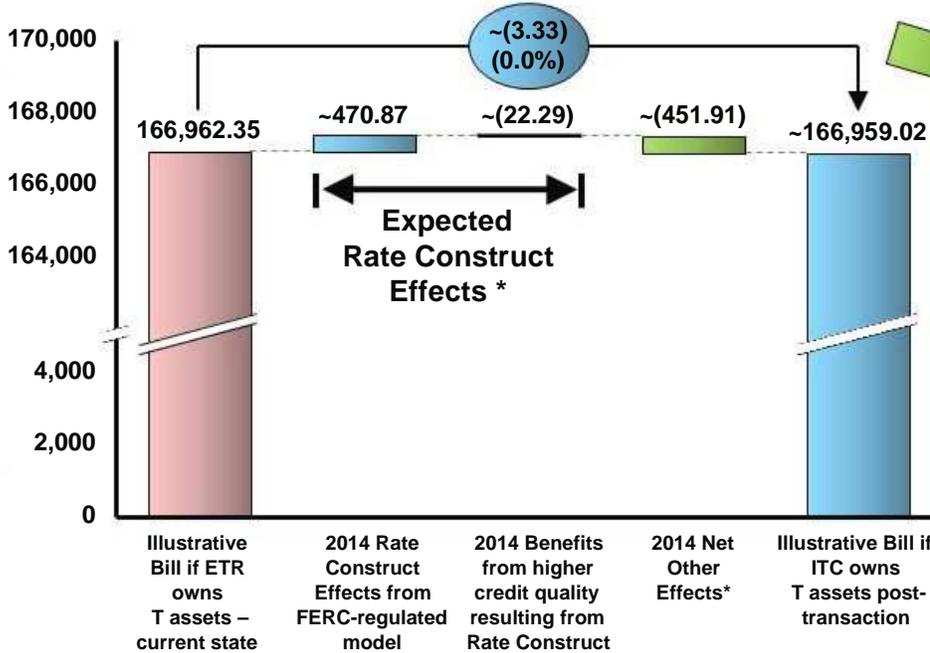
\*Refer to previous slide where rate construct and other assumptions are detailed

Note: Illustrative bill is the average of the 2011 Typical Monthly Bills for a residential customer using 1,000 kWh, excluding taxes. Calculation indicative of the rate effects of Transaction and is not meant to project an actual future customer bill. Estimation does not include effects of move to MISO, changes in fuel prices or rate cases between now and time of deal close.

# ETI Typical LIPS Customer Bill Not Expected to Increase Post Spin-Merge Due to Rate Construct Effects

**Illustrative**

ETI LIPS Bill –  
5,000 kWh, 80% load factor; \$



Over the long term, customer bill effects expected to be mitigated by...

- **Enhanced Financial Flexibility**
- **Operational Excellence**
  - Reliability, System Performance, Scale Efficiencies etc.
- **Independent and transparent ITC model, which supports robust markets and competition**

**Note: Contents exclude estimated one-time rate timing effect of \$228.18 in 2014 due to conversion to forward test year – reflects amounts that would have been collected in future years**

\*Refer to previous slide where rate construct and other assumptions are detailed

Note: Illustrative bill is the average of the 2011 Typical Monthly Bills for a Large Industrial Power Service (LIPS) customer using 5,000 kWh at an 80% Load Factor, excluding taxes. Calculation indicative of the rate effects of Transaction and is not meant to project an actual future customer bill. Estimation does not include effects of move to MISO, changes in fuel prices, or rate cases between now and time of deal close.

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# Pathway to Completion – Required Approvals

Authority	Requirements
Entergy retail regulators	<ul style="list-style-type: none"> <li>• Change of control of transmission assets</li> <li>• Affiliate transaction approvals related to steps in the spin / merge</li> <li>• Authorization to incur debt in some jurisdictions</li> </ul>
FERC	<ul style="list-style-type: none"> <li>• Change of control of transmission assets (203 filing)</li> <li>• Acceptance of jurisdictional agreements (205 filing)</li> <li>• Authorization to assume debt / issue securities (204 filings)</li> <li>• Changes to System Agreement to remove provisions related to transmission planning and equalization</li> <li>• ITC filing to establish new rate tariffs for the ITC operating companies</li> </ul>
Hart-Scott-Rodino Act	<ul style="list-style-type: none"> <li>• Pre-merger notification to review potential antitrust and competition issues</li> </ul>
IRS	<ul style="list-style-type: none"> <li>• Private letter ruling substantially to the effect that certain requirements for a tax-free treatment of the distribution of Transco are met</li> </ul>
Securities and Exchange Commission	<ul style="list-style-type: none"> <li>• ITC Form S-4 and Proxy Statement (including audited Transco financial statements and disclosures), and</li> <li>• Transco Registration Statement</li> </ul>
ITC shareholders	<p>Approvals required for:</p> <ul style="list-style-type: none"> <li>• Merger,</li> <li>• Issuance of shares to ETR shareholders, and</li> <li>• Amendment to ITC charter to increase authorized number of shares</li> </ul>