

## **Gulf Coast Power Association 28<sup>th</sup> Annual Spring Conference Keynote Speech**

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I'd like to start by thanking members of the Gulf Coast Power Association for inviting me to be a part of the 28th Annual Spring Conference. This is a unique opportunity for us to learn more about the issues driving our industry, and the challenges that will transform our future.

Let me acknowledge the great work you all do for us in the industry. Your educational programs, conferences and the forward-looking discussion you bring to us have been highly valuable to the industry and to us since your beginnings in 1983. You continue to assist your members in meeting the challenges of the future.

I am particularly encouraged by your programs such as Empowering Students and Empowering Women. Finding and retaining the most talented people can only be done if you are willing to find talent everywhere it exists.

Outreach programs such as these will help assure that we have a talented and diverse group of industry participants well into the future.

And we will all need it.

### **What the future of the industry in the US holds**

As I was looking over your conference agenda a single word really struck me. It is a word that we use in our corporate mission statement.

The word is "Sustainable."

Our mission at Entergy is "to create sustainable value for our four key stakeholders; our owners, our customers, our employees and the communities we serve."

We specifically focus on the word "sustainable" as we recognize that we are in this for the long haul.

Our customers will count on us for decades to come. Our investments are heavily weighted toward long-term assets. Our communities count on us to provide both the economic engine that drives them into the future – our business as it were – but they also depend on us because as utilities we are typically one of the most important philanthropic entities in the communities.

Our employees tend to stay with us for a large portion of their careers.

And certainly our investors focus on long-term results.

If as an industry we are to have a “sustainable” future, we are going to need to focus on all four of those stakeholders.

Today our industry is facing a far reaching set of challenges and opportunities.

As an industry we’re facing flat to declining demand for our product. In many regions of the country a combination of slow economic growth, increasingly effective energy efficiency, and penetration of distributed generation are all combining to provide a flat to declining load growth.

Nationally, retail electricity sales have actually declined 0.9% over the past five years, according to the Energy Information Administration. Now, the recession had something to do with the decline, but sales projections going forward are expected to average a little better than 1% growth in the coming five years.

Additionally, due to an aging infrastructure, environmental compliance requirements and new standards for operations in areas like transmission – including critical infrastructure protection both physical and for cyber-related issues – capital spending at utilities is growing larger than ever before.

In 2012, an EEI survey shows investor-owned electric utilities and stand-alone transmission companies invested a record \$34.9 billion in transmission and distribution infrastructure in 2012, representing a 12.2% increase over the previous year.

Over the next 15 years, capital expenditures for the nation’s utilities are expected to grow \$1.5 to \$2 trillion.

This combination of flat to declining sales growth with unprecedented capital expenditures presents two major challenges.

How do utilities maintain solid financial flexibility? And, how do customers afford to pay for the added investment?

If we think of the mission I mentioned earlier, sustainable value for both customers and owners, you have a significant balancing act when this starts to happen.

This is particularly true when you consider how technological advancement and changes in customer expectations are driving increased penetration of energy efficiency and distributed generation. A cycle of increasing investment and the resultant pricing impacts could only help to fuel the fire.

Due to a combination of rapidly improving productivity and generous federal and state subsidization, these energy efficiency and distributed technologies, primarily solar, are often times competitive with utility prices.

Add to that customer expectations and preferences, and you have the potential to have an acceleration of the load pressures that many utilities currently face.

### **Implications on the Gulf South region**

Here in the Gulf South we have the potential for a slightly different storyline.

We do face the underlying challenges of the rest of the industry across the nation. In our legacy base business load is growing, but slowly. At Entergy, for example, if we look at the legacy business we believe that load would grow in the range of 1% to 1.25%.

We also see in some areas the penetration of distributed generation. In Louisiana, where we have not only the 30% federal tax credit fueling the solar market, we have a very generous state tax credit that can cover as much as 50% also.

Throwing a net metering construct based on retail rates into the mix makes the area very attractive for solar providers.

Also, we all face the same exposure to aging infrastructure, changing operating standards and environmental regulations that drive our capital programs.

However, and this is a big however, we have an exposure to the energy revolution in this country unlike anywhere else in the United States.

You are all aware of the significant economic development activity that is exploding in this region.

Over \$64 billion of investment from over 88 projects have been announced, signed or are under development with a strong possibility of being completed in our service area alone.

With this investment will come nearly 40,000 new jobs.

And with it, the opportunity for almost 2,500 MW of new load for our utilities if it were to all show up and be served from the grid.

For us at Entergy, if it were to all show up, and we served it all, our load growth would not be projected at the 1%-1.25% I mentioned earlier, but would grow at a rate of 3%-3.25%.

And this is just with what has been announced to date.

Given that this industrial renaissance is being fueled by the disparity of worldwide oil and natural gas prices, versus the cost of natural gas in North America, this could go on for quite some time.

Our region has the benefit of;

- Low relative electricity rates – 20% below the national average
- Communities and governments that are progressive when it comes to attracting and supporting industry
- Workforces that are trained in the relevant areas, and
- Communities that are welcoming to new business and the jobs, tax base and community benefits they provide.

Because of all of this, as an industry we in the Gulf South may be uniquely positioned to prosper for all of our stakeholders in ways those in other parts of the country cannot.

It will not, however, just happen to us. We need to respond as an industry. That includes a coordinated response of companies, administrations, economic development agencies and regulators.

Without a coordinated response, our communities and our utilities will not be able to respond fast enough.

Additionally, the capital needs over and above what the rest of the nation faces, if not planned thoughtfully, or recovered adequately will either not come to fruition, or they could harm the financial flexibility of the utilities trying to help foster this economic growth.

### **How the industry responds is critical**

So, how we all respond as a collective group of government officials, government agencies, utilities and regulators really matters; perhaps more now than ever before.

To help feed this industrial renaissance we as utilities need to keep our prices competitive with the rest of the nation.

We also need to support the efforts of our elected officials and government agencies in attracting new customers and supporting their programs for business expansion and attraction.

And, we need to develop the capability to rapidly respond with the infrastructure required to meet the needs of the customers we are all trying to capture.

With our regulators we need to work on regulatory constructs that allow us to be aggressive in supporting this effort, while compensating us for the risks we may need to take to both access the capital, and respond quickly.

What is at stake here is jobs.

What is at stake here is the growth of prosperity in the states we serve.

What is at stake here is the future of the communities we call home. If you'll indulge me, let me tell you what we at Entergy are focused on in an effort to participate in this opportunity.

First, we are focused on aligning ourselves with the interests of our four stakeholders.

This begins with the understanding that for our utility business we are focused on growing the economies of the states where we operate.

The first thing we can control in this quest is our cost structure, and it's resulting impact on our prices.

To that end we undertook a number of initiatives last year to manage our costs.

We joined MISO, which is estimated to lower our customers' costs by \$1.4 billion over the first decade,

- We reorganized our entire company for two purposes:
  - First, we reduced our costs by \$200-\$250 million a year – much of it flowing through to the utilities.
  - And importantly, we increased our focus on economic development, understanding that this area required added focus.
- We put in place processes to increase customer engagement, and
- We aligned everyone on the major objective of growing our capability to serve the needs of our communities and customers while meeting the challenges that go along with this unique opportunity.

Our role as companies must be responsive, and we must have the collaboration I mentioned or we'll fall short.

When it comes to the issue surrounding technology and customer expectations we must also be responsive. As an industry we should be proactive rather than reactive. We have to find the right balance in this area.

We should help our regulators and elected officials avoid being put in a position where they have to make a choice between the future of a potential technology and subsidies that are often regressive in nature.

That means we must give new technologies a fair and complete review as to what they can provide to our customers in both cost and service.

This is an area that the industry hasn't yet gotten right. Finally, there is a role for our regulators in this quest to create economic prosperity in our region.

For Entergy, we operate in four states, with five local regulators across six different companies. So obviously, it gets just a bit complicated.

While generally we operate in an environment where our wholesale markets are competitive, but all aspects of the company are subject to cost of service principles; the way the operating companies are regulated varies widely from jurisdiction to jurisdiction.

In Louisiana and Mississippi, for example, we have formula rate plans that provide for annual rate reviews, but forego the cost and slow pace of full blown rate proceedings.

In Mississippi we also have performance metrics that can influence our return levels based on customer metrics – and alignment of our financial performance with our operating and satisfaction performance facing our customers.

Our business in Arkansas, in contrast, is regulated based on the traditional cost of service model with little flexibility outside of that model.

In between those extremes, here in Texas, we operate under a traditional rate case model, as we serve outside of ERCOT. This model is more expensive for customers, and certainly it is a slower process than what we would find in Louisiana or Mississippi in that it just takes longer to prosecute the cases. Additionally, it places significantly more financial pressure on the companies that must follow it.

Fortunately, over the last several years the Commission has worked to address some of the issues related to the speed and stress that this model places on all of the participants. The PUCT has made great strides by developing riders that bypass the general rate cases, and they are working to reduce rate case expenses as well.

We hope to continue to work with the commission on ways we can use some learnings from ERCOT, plus our view of the requirements we'll have to meet the challenges of growing the Texas economy I mentioned, and to develop cost recovery mechanisms that are quicker in recognizing changes in market conditions, and the investment needs that will accompany them.

It is this type of collaboration that will be so crucial to helping us drive the industrial growth that we all hope can become a reality.

None of us want to be the ones that stood in the way of job creation, expanded local tax base or the improvement in the quality of life our communities can achieve.

Finally, there is another opportunity that I want to touch on briefly as I close. That is the idea of making sure as an industry, and in collaboration with our other stakeholders; we plan for what's next.

The industrial explosion we are seeing along the Gulf Coast has some runway. As long as the global commodity price differentials stay where they are, this can continue.

But all of you are knowledgeable in commodity markets. This part of the country knows them well.

What we also know well is that commodity cycles are just that – cycles.

One day this will end. It always does.

While we're busy capturing this opportunity we must begin to sow the seeds for whatever the next opportunity might be. As companies, as government agencies and as communities.

Workforce training, education, and infrastructure are issues not only for this industrial revolution, but for whatever the next big thing will be.

If we are all successful in working together to capture this opportunity, we should utilize the benefits, whether they are profits or tax revenues, to prepare our organizations, and our communities for whatever opportunity lies beyond. If we don't take this opportunity to do that, then when the next revolution occurs, it will be another region of the country that tells the story we have right now.

If we succeed, we truly can make the success in the Gulf Coast sustainable.

Thank you very much for the opportunity to be with you today.