



MISSISSIPPI PUBLIC UTILITIES STAFF

EXECUTIVE SUMMARY

**Annual Report
For the Fiscal Year
Ending June 30, 2010**

**Robert G. Waites
Executive Director**

December 30, 2010

The Honorable Governor Haley Barbour, Lieutenant Governor Phil Bryant,
Members of the Legislature and State Elected and Appointed
Officials of the State of Mississippi
Jackson, Mississippi

Re: Mississippi Public Utilities Staff
2010 Fiscal Year Executive Summary

Ladies and Gentlemen:

In accordance with Sections 27-101-1 and 27-101-3, Mississippi Code of 1972, we provide you the Mississippi Public Utilities Staff Executive Summary of the 2010 Fiscal Year Annual Report. This Summary outlines Staff's various activities, functions and accomplishments during the fiscal year July 1, 2009 through June 30, 2010.

Respectfully submitted,

Robert G. Waites
Executive Director

The Public Utilities Staff (Staff) was created in 1990 and charged under Mississippi Code Annotated, §77-2-1, with representing the broad interests of the State of Mississippi by balancing the respective concerns of the residential, commercial and industrial utility customers, the state agencies and the public utilities. The Staff has investigative and advisory authority on matters that include:

- Reviewing and investigating contested matters before the Public Service Commission (Commission) and making recommendations with respect to the reasonableness of rates charged or proposed to be charged by public utilities.
- Reviewing, investigating and making recommendations with respect to services furnished or proposed to be furnished by public utilities.
- Making recommendations regarding all Commission proceedings affecting the rates, service or area of public utilities when deemed necessary and in the broad public interest.

The Staff is composed of 30 employees with a variety of technical expertise (engineering, accounting, legal, economics, telecommunications and administration). The Staff is under the direction of the Executive Director and organized into five divisions which are: Legal; Administrative Services; Economics and Planning; Water and Sewer; and Electric, Gas, and Communications.

During FY 2010, the Staff participated in 498 utility filings before the Commission. This involved reviewing and investigating contested and uncontested matters and included making recommendations to the Commission with respect to the reasonableness of rates charged or proposed to be charged by utilities. In addition, the Staff continually reviewed, investigated and made recommendations with respect to services furnished or proposed to be furnished by jurisdictional public utilities.

ELECTRIC

FUEL - The Staff continued to monitor and audit the fuel and energy purchases of Entergy Mississippi, Inc. (“EMI”) and Mississippi Power Company (“MPCo”). The purpose of the audits is to ensure that only allowable, prudently incurred fuel and purchased energy costs are passed through to ratepayers in accordance with state statute. However, in January 2009, the Commission elected not to certify the Staff’s fuel audits for the 2008 regulatory year. Instead, it directed that the uncertified reports be filed with the Mississippi Legislature pending further review and requested an extension until January 15, 2010, to submit additional audit reports. In August 2009, the Commission contracted with Nicholson & Company, PLLC (“Nicholson”) and McFadden Consulting Group, Inc. (“McFadden”) to conduct independent audits of MPCo’s fuel adjustment clause and with Horne LLP (“Horne”) to conduct independent audits of EMI’s fuel adjustment clause. The audits covered two fuel years: the twelve month periods ended September 30, 2008 and September 30, 2009. In addition, the Staff continued its independent audits of both companies for the twelve month period ended September 30, 2009. Subsequently, Horne, with the Commission’s consent, withdrew from the management review portion of its audits, and McFadden was engaged to perform it and was granted an extension until March 31, 2010, to file its report.

In January 2010, the final reports of Nicholson, McFadden and Horne were filed with the Commission (McFadden’s report on EMI was filed on March 24, 2010). In addition, the Staff filed its annual fuel audit reports for the twelve months ended September 30, 2009, for both companies along with a summary and comments of the Staff’s certified public accountant which addressed all of the filed reports. The audited figures of all of the parties were in agreement except for minor rounding differences. After a public hearing on January 14, 2010, the Commission certified all of the reports to the Legislature, including the Staff’s audit report for the twelve months ended September 30, 2008, which it had previously declined to certify in January 2009.

FORMULARY PLANS - On March 15, 2010, EMI filed its annual Formula Rate Plan Evaluation for the twelve months ended December 31, 2009, under its new Rider Schedule FRP-5 (Revised) which was approved on March 4, 2010. The company reported a benchmark rate of return of 8.78% and an expected return of 8.22% based on current rates indicating the need for a rate increase of \$11,844,000. After an extensive review and discussions with the company, the Staff and EMI were able to sign a joint stipulation agreeing to certain adjustments proposed by the Staff and no rate increase.

On November 16, 2009, MPCo filed its annual Performance Evaluation for the projected twelve month period ending December 31, 2010, under its new Rider Schedule PEP-5 which was approved by the Commission on November 9, 2009. The Company reported a Projected Retail Return on Investment of 7.572% based on current rates which fell within the Range of No Change indicating no change in rates. The Staff’s review resulted in several adjustments but also indicated that no rate action was necessary. On March 15, 2010, MPCo filed its look back evaluation for the twelve months ended December 31, 2009. As a result of its extensive review, the Staff proposed several adjustments but determined that the company’s return on investment was still within the Range of No Change. By joint stipulation dated October 26, 2010, MPCo and the Staff agreed to no change in rates which was approved by a Commission order dated November 2, 2010.

OTHER MATTERS - On January 16, 2009, MPCo filed a petition for a certificate of public convenience and necessity to construct and operate a new 582 MW baseload generating plant in Kemper county. The proposed plant would include a lignite coal-fueled integrated gasification combined-cycle (IGCC) baseload facility, environmental equipment, approximately 60 miles of transmission lines, three new transmission substations, approximately five miles of natural gas pipeline, and other related facilities. The estimated total cost of the entire project is \$2.4 billion, net of tax credits and other incentives. On June 5, 2009, the Commission issued a scheduling order establishing a two phase procedural schedule. The Phase 1 proceeding addressed whether and to what extent there exists a need for new resources. Phase 2 explored the availability and cost of new resources including the Kemper proposal.

Based on the evidence presented by MPCo and on the testimony of the expert consultants retained by the Commission and Staff, the Commission found that the company demonstrated a need beginning in 2014 of approximately 304 MW to 1,276 MW and advanced to Phase 2 by order dated November 9, 2010. Simultaneously, the Commission also issued an order inviting third parties to engage in a formal bidding process to offer alternatives to MPCo’s Kemper proposal.

The Phase 2 hearing was held on February 1-5, 2010. During the hearing, the Kemper proposal and three additional proposals submitted by independent power producers (“IPP”) based on natural gas-fired, combined cycle units were discussed and evaluated. During the proceeding a number of risks to customers and to MPCo were identified and discussed, including capital cost risk, construction cost risk, operating and performance risk, first of its kind technology risk, project cancellation risk and the risk of loss of federal incentives. On June 3, 2010, the

Commission issued a “Final Certificate Order” authorizing the acquisition, construction and operation of the Kemper County IGCC Project. In July, the Sierra Club filed appeals at the Mississippi Supreme Court and the First Judicial District of Harrison County seeking to overturn the Commission’s certificate order and requesting a stay on the granting of the certificate. On October 5, 2010, the Supreme Court ruled that the Chancery Court is the proper appellate jurisdiction. To date, this matter is still pending.

On May 22, 2009, System Energy Resources, Inc. (“SERI”), an affiliate of EMI, and South Mississippi Electric Power Association (SMEPA), who are the co-owners of the Grand Gulf Nuclear Station, jointly filed for a certificate of public convenience and necessity to construct, own, operate and maintain an extended power uprate (“EPU”) at the nuclear power station. The EPU will produce an additional 178 MW of baseload capacity, 52.9 MW (and associated energy) of which will be allocated to EMI. The total cost of the EPU is estimated to be \$510 million, not including transmission upgrades which are estimated to cost an additional \$65 million. EMI will be responsible for 30% of total costs. By order dated November 30, 2009, the Commission granted the joint petition and approved the estimated construction cost. Additional approvals may be required by the Nuclear Regulatory Commission, FERC and various environmental agencies.

TELECOMMUNICATIONS

The 662 Numbering Plan Area (“NPA”) is facing the exhaust of telephone numbers required for assignment to central office codes as early as the fourth quarter of 2013. In May 2010, the FCC entered an Order granting the Commission’s Petition for Delegated Authority to implement number conservation measures. This FCC action will allow the Commission to forgo the need for current relief planning and will defer 662 NPA exhaust.

Mississippi consumer access to Lifeline is being expanded by the Commission’s approval of a Petition filed by TracFone Wireless Inc. (“TracFone”). Under this initiative, TracFone has been designated as an Eligible Telecommunications Carrier thereby receiving Universal Service Fund low income support. This support will allow TracFone to provide a free 911-compliant cellular phone and at least 125 carry over minutes per month to Lifeline eligible recipients. Additional minutes will be available to TracFone Lifeline customers for \$.10 per minute. The Commission also designated five low income wire line prepaid Competitive Local Exchange Carriers to provide Lifeline and Link-Up service. These companies are: Budget Prepay, Inc. d/b/a Budget Phone, Express Phone Service, Inc., Fast Phones, Inc., Micro-Comm, Inc. and Nexus Communications, Inc.

On January 4, 2010, the City of Starkville filed with the Commission its initial Petition requesting allocation of the 311 dialing code as the general services and non-emergency number for the City of Starkville and surrounding Oktibbeha county. Starkville’s Petition for the 311 code represented the first such request by a Mississippi municipality for the use of this number. On May 20, 2010, the Commission approved the allocation of the 311 number to the City of Starkville and surrounding Oktibbeha county.

The Director of Communications for the Staff has served as a member of the Office of Governor Mississippi Broadband Taskforce since mid-2009. In this position, this Staff representative has offered support for the filing of two National Telecommunications and Information Administration Broadband Mapping grants as well as the filing of both Round 1 and Round 2 Broadband Technology Opportunities Program (“BTOP”) applications. Mississippi has been awarded a two-year, \$2 million broadband mapping grant as well as a \$70 million Round 2 BTOP award that will help implement a statewide emergency system for first responders.

GAS

FORMULARY PLANS - On September 4, 2009, Atmos Energy Corporation (“Atmos”) filed its annual evaluation for the twelve months ended June 30, 2009, seeking a rate increase of \$10,195,434. During its review, the Staff proposed several substantial adjustments which were accepted by the company and reduced the proposed rate increase to \$3,183,257. By order dated December 15, 2009, the Commission adopted the resulting joint stipulation. Willmut Gas & Oil Company (“Willmut”) also made an evaluation filing on September 15, 2009, indicating a rate decrease of \$120,728. However, after the Staff’s review and adjustments, Willmut agreed to a rate decrease of \$150,640 in a joint stipulation with the Staff that was subsequently approved by the Commission by order dated December 15, 2009.

On July 20, 2009, CenterPoint Energy Entex (“CenterPoint”) filed a general rate case requesting a rate increase of \$6,219,532. Shortly thereafter, in response to an RFP, the company received a bid from BP Energy to pay a fixed sum of \$3.78 million per year for seven years for the right to manage the company’s Gulf South Pipeline storage assets. Representatives of the company and Staff subsequently negotiated an agreement whereby CenterPoint withdrew its general rate case and was allowed to apply the revenue from its Asset Management Agreement (“AMA”) with BP Energy to its revenue requirement. By order dated October 29, 2010, the Commission approved the AMA and the agreement negotiated by the Staff.

PURCHASED GAS ADJUSTMENT - The Staff continued monitoring the purchased gas adjustments (“PGAs”) of the three major LDCs. Atmos and CenterPoint were reviewed monthly and Willmut was reviewed on a bi-monthly schedule. No significant adjustments were recommended by the Staff. Atmos and CenterPoint also are engaged in Commission-approved hedging programs to help reduce the volatility of natural gas prices. Hedging gains, losses and related expenses which are recoverable through the PGA were also reviewed by the Staff with no significant errors noted.

WATER & SEWER

The Staff reviewed 68 water and sewer cases that included applications for construction of facilities, applications to serve customers and applications to revise the rates and charges authorized by the Commission. The Staff audited water and sewer companies, made cost studies of construction projects, monitored construction of new facilities and examined customer service practices of water and sewer utilities. Also, the Staff reviewed over 45 water block grant applications and made recommendations to the Mississippi Development Authority.

ECONOMICS & PLANNING

Issues relating to electricity needs and possible new plant proposals in Mississippi were reviewed. Various possibilities for efficiencies were studied. Return on equity formulas were evaluated and redesigned when required. Regulatory innovation in other states was monitored. General market conditions are continually followed carefully to be aware of opportunities for refinancing utility debt at the lowest costs. We also follow likely environmental regulations that may impact costs in Mississippi.